

# NAVAL POSTGRADUATE SCHOOL

## Monterey, California



## THESIS

### ESTABLISHING EVALUATION CRITERIA FOR NAVY REGIONALIZATION

by

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June 1999

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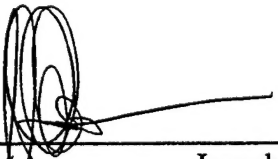
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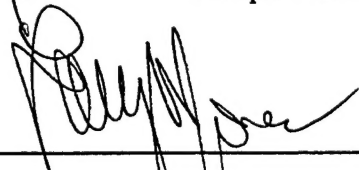
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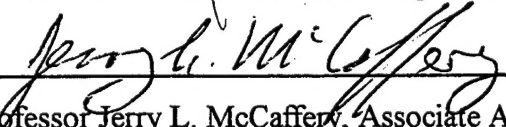
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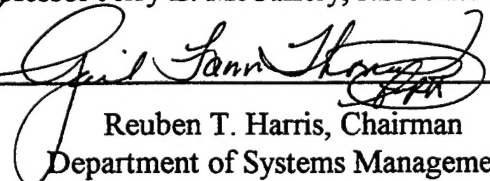
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## **ABSTRACT**

In response to a perceived decline in the global threat and reduced defense budgets, the Navy has sought to reduce costs and increase efficiency through the concept of regionalization, i.e., the consolidation of support functions for all activities in a specific geographic area. The primary means of cost reduction under regionalization is the elimination of military and civilian manpower requirements through the elimination of management functions on individual bases. The regionalization concept is currently in various stages of implementation throughout the world, and uses as its basis the concept of "best business practices." A comprehensive means to evaluate the effectiveness of regionalization has not been established; therefore there is no accepted basis upon which to judge the financial benefits of regionalization, the associated financial and readiness costs, or the best approach to implementation. This thesis synthesizes best business practices and ongoing regionalization efforts at the Pacific Northwest, Pacific Southwest, and Hawaii regions and establishes criteria for evaluation of regionalization.



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## **I. INTRODUCTION**

### **A. PURPOSE**

This thesis will identify criteria to be used in the evaluation of Navy regionalization efforts using best business practices. These criteria may be applied when considering effectiveness of regional support and modifications to regional business concepts. Research consisted of: (1) a review of regionalization history, (2) a review of regionalization efforts in the Pacific Northwest, Pacific Southwest, and Hawaii regions, (3) comparing and contrasting these efforts, (4) a review of current best business practice literature, and (5) synthesis of literature and application of theory to establish criteria to evaluate regionalization in the Navy.

### **B. BACKGROUND**

The Navy has sought to reduce costs and increase efficiency through the concept of regionalization, i.e., the consolidation of support functions for all activities in a specific geographic area. The regionalization concept is currently at various stages of implementation throughout the world.

A comprehensive means to evaluate the effectiveness of regionalization has not been established; therefore there is no accepted basis upon which to judge the financial benefits of regionalization, the associated financial and readiness costs, or the best approach to implementation. This thesis will synthesize best business practices and



ongoing regionalization efforts at three Pacific sites to establish criteria for evaluation of regionalization.

## **C. RESEARCH QUESTIONS**

### **1. Primary Research Question**

What criteria should be used to evaluate regionalization efforts in the Navy?

### **2. Secondary Research Questions**

(a) What regionalization concepts have been applied in creating the three Pacific regions?

(b) What measurement tools and data are available to evaluate the fiscal impacts of these efforts?

(c) Which of these tools can be effectively applied to Navy activities?

(d) What further research will be necessary to apply these tools and evaluate Navy regionalization?

## **D. SCOPE**

This thesis will compare and contrast regionalization efforts at the three Pacific regions and establish criteria for evaluation of regionalization using principles derived from analysis of contemporary best business practices. It will include (1) a review of regionalization concepts, (2) review of three regionalization cases, (3) review and application of best business practices to regionalization, and (4) establishment of evaluation criteria for regionalization. The thesis will not provide a cost benefit analysis of regionalization in the three cases, as implementation is not complete. However, topics for future research in that area will be identified.

## **E. METHODOLOGY**

The methodology utilized for this research is divided into six steps: (1) review of the pertinent literature, (2) collection of data, (3) interviews with affected activities, (4) summarization of regionalization efforts, (5) synthesis of literature to regionalization goals, and (6) establishment of criteria to evaluate consequences of regionalization.

(1) Literature: A review of the literature on current best business practices was conducted. The literature was used to choose the most appropriate models to evaluate regionalization consequences.

(2) Data: Data were collected from the three regionalization sites. These data included organizational structures, standards of service, manpower and cost data, and local lessons learned.

(3) Interviews: Personnel responsible for regionalization were interviewed, as were personnel from commands affected by regionalization.

(4) Summarization of efforts: Information obtained in (2) and (3) above has been compared and contrasted to describe the status of regionalization and the resulting organizational structures.

(5) Synthesis of literature: Currently accepted better business concepts are compared to stated regionalization goals and current regionalization methods and results.

(6) Establishment of Criteria: Criteria for evaluation of current and future Navy regionalization efforts have been developed.

## **F. ORGANIZATION**

Chapter II provides the background for regionalization and describes regionalization concepts and guidance within the framework of the overall Navy infrastructure reduction effort. This chapter describes Navy goals and methods for regionalization.

Chapter III describes regionalization at three Commander-in-Chief, U.S. Pacific Fleet (CINCPACFLT) regions and compares and contrasts the three approaches to regionalization. It also identifies unique characteristics of the three sites in terms of mission and geography.

Chapter IV examines problems and issues encountered at the sites. This chapter discusses difficulties encountered in regionalization and addresses concerns of units that comprise the regional customer base. It is not intended to be an evaluation of regionalization efforts, but sets the stage for development of criteria for analysis by identifying customer expectations and perceptions and by discussing resistance to regionalization efforts.

Chapter V discusses the results of the analysis. The contents will include presentation, analysis, and discussion of criteria for evaluation of Navy regionalization. This chapter provides a synthesis of literature and the application of theory to regionalization.

Chapter VI provides conclusions, lessons learned, recommendations, and identification of areas for future research.

## **G. BENEFITS OF STUDY**

Regionalization of functions within geographic regions has broad fiscal, readiness, and quality of life implications for the organizations served by the resulting support activities. To date no criteria have been established to determine the financial and efficiency costs and benefits of such sweeping changes. By identifying these criteria, based

on current business practices, this research will help guide future evaluation and adjustment of regionalization efforts. The results of this evaluation will lend additional validity to the regionalization concept and identify shortcomings with the current regionalization concept or application. It may also serve to improve ongoing regionalization efforts by identifying specific issues to be considered in implementation, and in consolidating and summarizing lessons learned from the three regionalization cases examined.



## **II. REGIONALIZATION CONCEPTS**

### **A. CHAPTER INTRODUCTION**

The idea of sharing Navy infrastructures and capabilities within a geographic area as a means of achieving efficiency is not new. The Naval Supply Systems Command (NAVSUP) initiated seminal "regionalization" efforts in developing partnerships with Naval Aviation Depots nearly a decade ago. The success of these and other partnerships led to the consideration of regionalization on a wider scale. It became apparent that the Navy could no longer support an infrastructure that relied upon dedicated, specialized, stand-alone organizations for different support functions located in the same geographic area. Moreover, corporate America was achieving huge savings by reengineering and reorganizing corporate structures, and the Navy leadership wished to duplicate some of these successes. In June 1997, Admiral Jay Johnson, the Chief of Naval Operations, ordered the Navy to move forward and regionalize the infrastructure.

### **B. REGIONALIZATION OVERVIEW**

#### **1. Regionalization guidance**

The regionalization directive was brief. Indeed, it is succinct enough to be duplicated in its entirety below [Ref. 6]:

\*\*\*\*\*PERSONAL FOR\*\*\*\*\*

P 232110Z JUN 97  
FM: CNO WASHINGTON DC ORIG NOO  
Subject: REGIONALIZATION//  
UNCLAS PERSONAL FOR COMMANDERS, COMMANDING OFFICERS, AND  
OFFICERS IN CHARGE //NO4000// NAVOP 004/97  
MSGID/GENADMIN/CNO NOO//

SUBJ/REGIONALIZATION//

RMKS/1. AS WE GO FORWARD, ONE OF OUR PRIMARY OBJECTIVES MUST BE TO REDUCE THE COST OF OPERATING THE NAVY SHORE ESTABLISHMENT SO WE CAN USE THOSE SAVINGS FOR PEOPLE/QUALITY OF LIFE, READINESS, AND MODERNIZATION. THIS INITIATIVE BEGAN WITH OUR REGIONAL MAINTENANCE CONCEPT OF TWO YEARS AGO. WE'RE JUST STARTING TO SEE THOSE EFFORTS COME TO FRUITION, AND IT'S TIME NOW TO AGGRESSIVELY AND COLLECTIVELY WORK TOGETHER ON OVERALL REGIONALIZATION. THE SAVINGS FROM REDUCED INFRASTRUCTURE COSTS ARE AN INTEGRAL PART OF THE PLAN FOR THE FY99 BUDGET, AND SUCCESSFUL EXECUTION OF THE PLAN WILL BE DEPENDENT ON THIS INITIATIVE.

2. WE HAVE MUCH TO DO AND OUR APPROACH TO INFRASTRUCTURE COST REDUCTION SHOULD CENTER ON TWO FUNDAMENTALS:  
A. REGIONALIZING INSTALLATION MANAGEMENT (IM) FUNCTIONS IN SHORE CONCENTRATION AREAS: BY SO DOING, WE WOULD ELIMINATE REDUNDANT FUNCTIONS/ORGANIZATIONS AND STREAMLINE REMAINING FUNCTIONS THROUGH STANDARDIZATION, CONSOLIDATION, AND ELIMINATION OF UNNECESSARY OVERHEAD COSTS. ALSO, WE COULD IDENTIFY THOSE REQUIREMENTS THAT ARE ESSENTIAL TO MISSION SUCCESS AND MEET THOSE REQUIREMENTS THROUGH OPTIONS THAT RESULT IN BEST VALUE FOR NAVY. IN IDENTIFYING OPPORTUNITIES TO REGIONALIZE, WE MUST TAKE A BROAD VIEW OF IM, INCLUDING SUCH FUNCTIONS AS AIR OPERATIONS, PORT SERVICES AND ADP, IN ADDITION TO BASE OPERATING SUPPORT (BOS) SERVICES SUCH AS REAL PROPERTY MANAGEMENT, BACHELOR QUARTERS, AND SECURITY.  
B. REDUCING THE NUMBER OF CLAIMANTS IN THE IM BUSINESS: CLAIMANT CONSOLIDATION WOULD ALLOW SMALLER CLAIMANTS TO FOCUS ON THEIR PRIMARY MISSION WHILE LARGER CLAIMANTS, INCLUDING THE FLEETS, WOULD PROVIDE IM SERVICES TO TENANT ACTIVITIES WITHIN A REGION. INSTALLATION CLAIMANT CONSOLIDATION WOULD FACILITATE REGIONALIZATION AND REDUCE ECHELON ONE AND TWO IM STAFFS. SUCH REALIGNMENTS WOULD ALSO ALLOW THE REMAINING CLAIMANT SERVICE PROVIDERS TO BE MORE COMPETITIVE AS WE EXPLORE OUTSOURCING AND PRIVATIZATION OPTIONS.

3. THERE IS NO SINGLE SOLUTION WHICH WOULD RESULT IN THE TOTAL COST SAVINGS NEEDED TO SUPPORT OUR FORCE STRUCTURE. MANY POTENTIAL SOLUTIONS LIE OUTSIDE OUR PURVIEW. WE CAN ACHIEVE NEEDED SAVINGS ONLY THROUGH REGIONALLY FOCUSED ANALYSES DEVELOPED THROUGH THE ACTIVE AND COLLABORATIVE PARTICIPATION OF REGIONAL COMMANDERS, LOCAL COMMANDING OFFICERS, LEAD FLEET/MAJOR CLAIMANTS AND OPNAV. AS THE RESULT OF ONE SUCH EFFORT, CINCPACFLT AND COMNAVBASE SAN DIEGO ARE NOW IMPLEMENTING IM REGIONALIZATION IN SAN DIEGO. CINCLANTFLT, CINCPACFLT AND CNET REGIONALIZATION ANALYSES ARE ALSO ONGOING AT OTHER LOCATIONS. SIGNIFICANT POTENTIAL SAVINGS ARE BEING IDENTIFIED PARTICULARLY WHEN BOS SERVICE PROVIDERS ARE CONSOLIDATED.

4. OUR GUIDING PRINCIPLES FOR REGIONALIZATION ARE CLEAR:  
- NO TENANT SHOULD DO WHAT A HOST COMMAND CAN DO.

- NO HOST SHOULD DO WHAT A REGIONAL COMPLEX CAN DO.
- NO REGIONAL COMPLEX SHOULD DO WHAT THE SURROUNDING COMMUNITY CAN DO MORE COST EFFECTIVELY.
- THE NUMBER OF HOST COMMANDS AND TENANTS PROVIDING SERVICES SHOULD BE REDUCED TO THE MINIMUM.

5. INITIATIVES TO REDUCE INFRASTRUCTURE ARE SENSITIVE ISSUES BOTH HERE IN WASHINGTON AND IN LOCAL COMMUNITIES, THUS IT IS IMPORTANT THAT WE CAREFULLY ARTICULATE THESE CONCEPTS. WE MUST BE CAREFUL TO ENSURE THAT A CLEAR DISTINCTION IS MADE BETWEEN "LOOKING AT/STUDYING/ANALYZING" A PARTICULAR IM FUNCTION, AND "EXECUTING/REALIGNING/RESTRUCTURING". CONFLICTING INFORMATION PROVIDED AT DIFFERENT LEVELS OF THE CHAIN OF COMMAND CAUSES SERIOUS CONFUSION AND MAY DELAY IMPLEMENTING THE INITIATIVES SUPPORTED BY OUR ANALYSIS. ALL LEVELS OF THE CHAIN OF COMMAND SHOULD BE SUPPORTING THESE EFFORTS FOR ALL THE SAME REASONS, AND GUIDANCE MUST BE CLEAR AND PROPERLY COORDINATED. AT THE SAME TIME, SENIOR LEADERS WITHIN EACH REGION MUST ENSURE THAT PRINCIPALS WITHIN THE LOCAL COMMUNITIES ARE INFORMED AND INVOLVED IN CREATING A MORE COST EFFECTIVE INFRASTRUCTURE. IT MUST BE UNDERSTOOD THAT THERE IS STRENGTH IN REGIONALIZATION. THE MORE EFFICIENT AREAS ARE, THE MORE SOLID THEIR FOUNDATION.

6. WE MUST BUILD UPON THE SUCCESSES OF OTHER REGIONAL EFFORTS SUCH AS IN MAINTENANCE AND FISC PARTNERING. HOWEVER, THROUGHOUT THE PROCESS, WE MUST CONSIDER THE EFFECTS OF REGIONALIZATION INITIATIVES ON HOMEBASING, SEA/SHORE ROTATION AND OTHER PROGRAMS CRITICAL TO THE RETENTION OF OUR HIGHLY TRAINED AND SKILLED PERSONNEL, ENSURING THAT OUR EFFORTS DO NOT RESULT IN OUR SAILORS OR CIVILIANS BEING ASKED TO DO MORE WITH LESS. I ASK FOR THE ACTIVE PARTICIPATION AND SUPPORT OF ALL COMMANDS AS WE WORK TOGETHER TO REALIGN SHORE INFRASTRUCTURE WHERE IT MAKES SENSE. YOUR ACTIVE SUPPORT AND BEST EFFORTS WILL BE CRITICAL TO OUR SUCCESS.

7. RELEASED BY ADMIRAL JAY L. JOHNSON, CNO//

This brief order directs fundamental changes in Navy waterfront infrastructure. The message provides goals, guiding principles, and broad means of implementation. Strong emphasis is placed on eliminating duplication of effort and waste, and the four guiding principles would become mantras to all of the regions surveyed: no tenant should do what a host command can do; no host should do what a regional complex can do; no regional complex should do what the surrounding community can do more cost



effectively; the number of host commands and tenants providing services should be reduced to the minimum [Ref. 6]. The potential of regionalization as one of many possible tools to increase efficiency, thereby reducing costs, is the central feature of the message. Importantly, it also provides a strong caution against reducing the infrastructure at the expense of readiness and quality of life of sailors and civilian employees.

The logical sequence of events implied by this document is Installation Claimant Consolidation, followed by Regionalization/Reengineering. In fact, in a subsequent message, the CNO stated that, "...regionalization and installation claimant consolidation are inextricably linked" [Ref. 7]. When the Most Efficient Organization (MEO) is reached, then competitive outsourcing studies would be performed in accordance with OMB Circular A-76. The regionalized activities, configured in the MEO, would be better able to compete with commercial activities in outsourcing studies. This process is summarized in Figure 2-1.

## **2. Installation Claimant Consolidation**

As the first step to regionalization, Installation Claimant Consolidation was intended to relieve smaller claimants of their Installation Management (IM) responsibilities, allowing them to focus on operational mission areas. The number of Claimants Navy-wide with Base Operation Support (BOS) as a primary mission would be reduced from eighteen to eight. Navy activities were categorized as being within Navy concentration areas or not in Navy concentration areas. The BOS claimants for Navy



**Fig. 2-1, Chronological Regionalization Approach**

Concentration areas are CINCPACFLT for San Diego, Port Hueneme, Pacific Northwest, Hawaii, Guam, Japan, and Korea; Commander-in-Chief, U.S. Atlantic Fleet (CINCLANTFLT) for Hampton Roads, Jacksonville, New England and Charleston; Chief of Naval Education and Training (CNET) for Pensacola, Great Lakes, and South Texas; CNO for Greater Washington DC and Bahrain; Commander-in-Chief, U.S. Naval Forces, Europe (CINCUSNAVEUR) for all installations in Europe; and Chief, Navy Reserve Forces (CHNAVRES) for New Orleans. The two additional BOS claimants are Naval Sea Systems Command (NAVSEA) for BOS functions integral to industrial operations and Naval Air Systems Command (NAVAIR) for research and development funded functions at PT Mugu and NAVAIR stand-alone warfare centers [Ref. 7].

Consolidation of installation management staffs would result in manpower savings. More importantly, in theory the larger consolidated claimants would have greater

flexibility in budget execution and would realize the advantages associated with a deeper pool of IM expertise and economies of scale. NAVOP 015/97, the CNO message announcing claimant consolidation, required consolidation to be complete by 01 October 1998 [Ref. 7]. Consolidation involved a budget base transfer of BOS funding, the transfer of civilian end-strength and military billets, and the transfer of Class I (Land) and Class II (Buildings, Structures) property, to the remaining eight claimants. Both new and existing tenant activities were then required to review and/or establish host/tenant agreements with the consolidated BOS providing claimants.

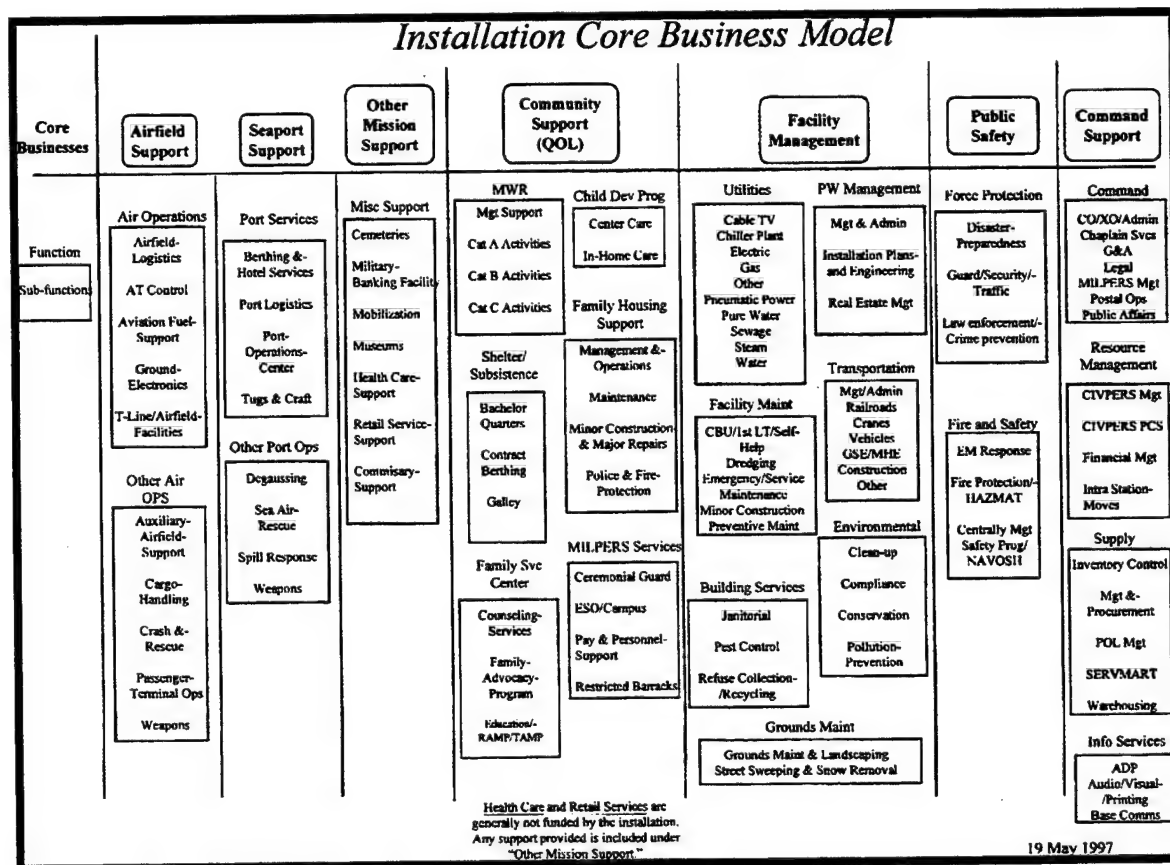
### **3. Further Regionalization Guidance**

The CNO regionalization message allowed Fleet Commanders broad discretion in the implementation of regionalization; indeed, no definitive or comprehensive model of what constituted base support and what functions were to be regionalized existed.

The Installation Management Accounting Project (IMAP) team, operating under a charter signed by the Assistant Secretary of the Navy, Financial Management and Comptroller (ASN, FM&C) and the Deputy Chief of Naval Operations (DCNO), Logistics, developed the Installation Core Business Model [Ref. 23]. The purpose of the model was to provide more consistent and accurate financial accounting. The model defined business areas, functions, and subfunctions funded with Base Operating Support (BOS) budgets, with the intent of improving cost accounting procedures by providing a consistent basis for reporting BOS expenditures to the Standard Accounting & Reporting System, Field Level (STARS/FL), the Navy's accounting system. The regions studied have adopted this model, to varying degrees, as a baseline to describe those functions that

should be provided by a regional commander. The model is summarized in Figure 2-2.

In an effort to further define those functions that a regional claimant should provide to tenants, CINCPACFLT developed a Common Service Support table for Navy Support Agreements. The guidance was designed to standardize terminology consistent with the Installation Core Business Model. This model has been proposed by OPNAV N46 (Shore Installation Management) as a services baseline to be used in implementing regionalization by other claimants [Ref. 55].



**Fig. 2-2, Installation Core Business Model, [Ref. 23]**

Further amplifying guidance was provided by the DCNO, Logistics on 22

December 1998 in the form of the *Navy Infrastructure Reduction Business Plan*. This document reiterated goals and strategies of Infrastructure Reduction and provided a plan for the absorption of an \$8 billion dollar total reduction in funding from fiscal years 1998 through 2005, which has come to be known as “the wedge.” Although the document addressed the role of regionalization in infrastructure reduction, its primary focus is on competitive sourcing as a means to liquidate “the wedge.” OMB Circular A-76 directed competitive sourcing of functions to private sector business, and it is viewed by the Navy as the “primary vehicle for infrastructure reduction” [Ref. 54].

#### **4. Competitive Sourcing**

An exhaustive study of competitive sourcing initiatives is clearly beyond the scope of this thesis. However, many Navy military personnel and civilian employees not directly involved in regionalization implementation view the two initiatives as one and the same. It is true, in fact, that both may be used as means to the same end, reduced cost through reduced infrastructure. They are separate processes, but the success of regionalization has implications for the outcome of future “A-76” studies, and attempts to outsource and regionalize simultaneously have possible impacts on customer support. For these reasons competitive sourcing is now discussed.

OMB Circular A-76, *Performance of Commercial Activities*, was first issued in 1966 and revised in 1967, 1979, and 1983. It established as federal policy the idea that, “...In the process of governing, the Government should not compete with its citizens. The competitive enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength. In recognition of this principle, it has

been and continues to be the general policy of the Government to rely on commercial sources to supply the products and services the Government needs" [Ref. 53]. The handbook accompanying the Circular was revised in 1996 and provides detailed methodology for determining which activities are not inherently governmental and how to determine the best source for those services. The Navy Outsourcing Support Office provided supplemental guidance in *Succeeding at Competition; A Guide to Conducting Commercial Activities Studies* [Ref. 45]. This publication organizes the A-76 study process into a fifteen-step methodology shown in Figure 2-3.

DESCRIPTION OF STEPS ON THE A-76 TIMELINE	
<b>Step 1: Plan for Commercial Activities Study</b>	<b>Step 9: Perform Independent Review</b>
<b>Step 2: Develop PWS and QASP</b>	<b>Step 10: Evaluate Proposals</b>
<b>Step 3: Review and Revise PWS and QASP</b>	<b>Step 11: Obtain Prenegotiation Clearance Approval</b>
<b>Step 4: Obtain High Level Approval of PWS and QASP</b>	<b>Step 12: Conduct Discussions with Offerors</b>
<b>Step 5: Conduct Presolicitation Actions</b>	<b>Step 13: Obtain Final Clearance Approval for Selecting Best Value Contractor Proposal</b>
<b>Step 6: Prepare and Issue Solicitation</b>	<b>Step 14: Compare Government and Contractor Proposals</b>
<b>Step 7: Develop the Management Plan</b>	<b>Step 15: Announce Tentative Decision</b>
<b>Step 8: Respond to Solicitation</b>	

**Fig. 2-3, Steps of *Succeeding at Competition*, [Ref. 45]**

Regardless of the success of other Navy infrastructure reduction efforts, it is likely that the Office of the Secretary of Defense (OSD) will still require A-76 based outsourcing efforts [Ref. 1]. The CNO has directed A-76 studies of 80,500 positions, 70,500 civilian and 10,000 military [Ref. 60]. The projected savings from these efforts are \$2.5 billion,

and these savings have already been programmed into the Navy budget cycle, whether or not they are achievable. The impact of combining A-76 competitive sourcing studies and regionalization initiatives is discussed in detail in Chapter IV.

### **III. CURRENT REGIONAL STRUCTURES**

#### **A. CHAPTER INTRODUCTION**

Although the broad goals of regionalization were clear at the outset, specific guidance on regional implementation and regional command structures was not provided. Regional Commanders were creating their organizations "from scratch," guided chiefly by the CNO's four guiding principles. However, as the major resource claimant for the Navy's prototype region, the Southwest Region, CINCPACFLT has amassed considerable regionalization expertise. The CINCPACFLT Facilities (N46) organization was an early and proactive proponent of infrastructure reduction, and many of its initiatives have been adopted as Navy standards. As a result, the three regions studied share several key, common assumptions.

Chief among the common assumptions is the intent to achieve savings through "best business practices." KPMG Peat Marwick provided consulting services in support of implementation efforts in each of the three regions studied. Analysts from KPMG assisted in establishing core functions, made recommendations regarding best business practices, and ran preliminary activity-based costing (ABC) models. In addition to providing a third party view of the issue, KPMG served to "cross-pollinate" the regions.

Each region uses a similar matrix organization. The Regional Commander is responsible for providing all non-operational support functions to tenants and customers. BOS functions are separated into "programs" and executed by program managers who report to the Regional Commander. Program managers may be base and activity



commanding officers or other designated personnel. An advisory body comprised of customer commands advises the Regional Commander. The CINCPACFLT notional matrix organization for regionalization is summarized in Figure 3-1 [Ref. 5].

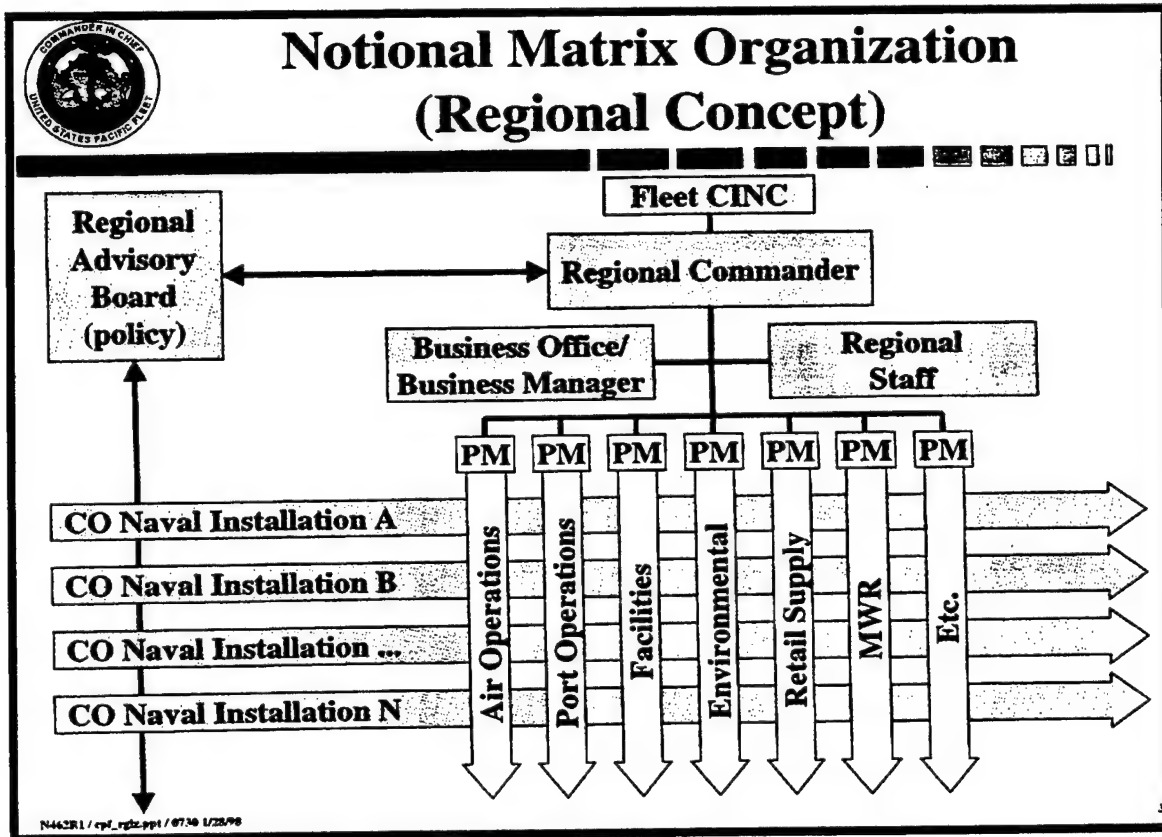
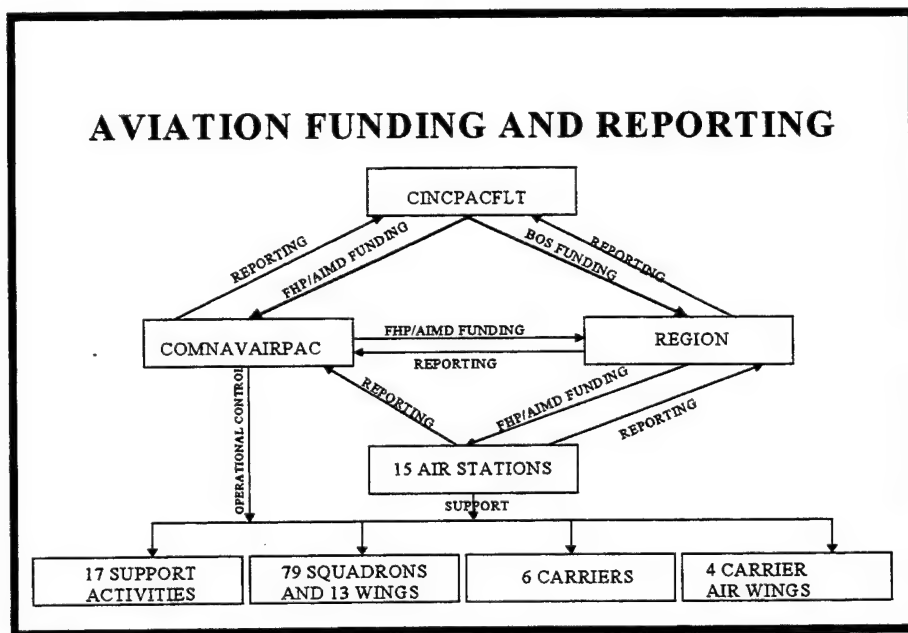


Figure 3-1, CINCPACFLT Notional Matrix Organization [Ref. 5]

Although the flow of funds within regions is quite different, the flow of funds into the region is standardized. The Regional Commander receives BOS funding for all activities in the region from the major claimant and determines allocation and execution of funds. Regional Commanders retain 31 U.S. Code Anti-deficiency Act Section 1517 authority and are personally accountable for overobligation of funds. Operational funds

flow directly via Type Commanders to deployable units. A notable exception is flying hour program and Aircraft Intermediate Maintenance Department (AIMD) funding, provided by CINCPACFLT to Commander, Naval Air Forces, Pacific Fleet (COMNAVAIRPAC). COMNAVAIRPAC retains Anti-deficiency Act Section 1517 authority for these funds and distributes them through Regional Commanders to air stations. The funds are “fenced” and cannot be reprogrammed or redistributed by the Regional Commander. This relationship is summarized in Figure 3-2.



**Figure 3-2, Aviation Funding and Reporting**

OPNAV did not dictate a standard regional structure. Proponents of regionalization point out that by avoiding a “cookie cutter” mentality, regions were organized to be more responsive to unique missions, customer needs, and geographic constraints in a given region. The result is that the three regions studied share common

assumptions but are different in philosophy, function, and command structure. There are also notable differences in the level of participation in the regions by Navy commands residing in the concentration areas. The remainder of this chapter will describe the current composition of these three regions, comparing and contrasting their respective approaches.

## **B NAVY REGION SOUTHWEST**

### **1. Regional History**

The San Diego area was the Navy pilot site for development of the concept to regionalize common installation management functions. A Streamlined Business Case Analysis (SBCA) was performed. The SBCA methodology identified twenty potential common support functions, established teams to analyze each function, and reported the findings of the team in the SBCA format. Reports included an executive summary, objective/scope of analysis, assumptions and constraints, current concept of operations, proposed concept of operations, and cost analysis, used to project savings resulting from regionalization.

On 10 October 1996 the DCNO (Logistics) approved the recommendations contained in the San Diego SBCA for immediate implementation and directed that implementation, "...must be completed as soon as possible (no later than FY 1999) [Ref. 13]. CINCPACFLT was designated to lead the implementation. Geographic consolidation was directed as follows:

- Transfer of all class 1 and 2 real property ownership in San Diego to CINCPACFLT.

- Creation of three Naval complexes in San Diego including redesignation of NAB Coronado from a separate command to an annex of NAS North Island.
- Designation of CINCPACFLT hosts for each of the three geographic hosts.
- Transfer of all installation management functions from current tenants and hosts to the three geographic hosts (Point Loma, Coronado, Mainside), per the Geographic Consolidation SBCA, with commensurate decreases in management and support personnel.
- Specific staffing of resultant organization to be developed by CINCPACFLT with assistance from other affected claimants [Ref. 13].

In addition to geographical consolidation, OPNAV directed the following:

- Regionalize common Bachelor Quarters functions under a single command per the Bachelor Quarters SBCA.
- Regionalize common environmental functions under a single command per the Environmental SBCA as long as no Commanding Officer is placed in legal jeopardy.
- Regionalize common base security functions under a single command with "precincts" at the three host commands per the Security SBCA.
- Regionalize Safety under a single command per the Safety SBCA as long as responsibility versus control issues can be addressed.
- Continue FISC San Diego partnering efforts for all commands in San Diego per the Retail Supply SBCA.
- Consolidate resource management (comptrollers) by claimant per the Resource Management SBCA.
- Consolidate Freight Transportation under FISC San Diego after further study of the process. Include PWC San Diego in any further study of freight transportation.
- Consolidate Mail services under FISC San Diego per the Admin Services SBCA.
- Regionalize Food Services (galleys) under a single command per the Food Services SBCA.

On 01 October 1998 Commander Naval Base, San Diego became Commander, Navy Region Southwest.

## **2. Mission, Vision, and Guiding Principles**

In an August 1998 Naval Message announcing the results of the Naval Southwest Region Installation Commanders Regionalization/Planning Conference, the Regional Commander stated the Southwest Region's mission and vision. The mission statement noted: "We are a regional team dedicated to providing the highest level of base operating support and quality of life services for all operating forces and shore activities in the southwest region." The Southwest Region's Vision: "We will be recognized as the leader in shore installation management. One team, one voice, one mission"[Ref. 11]. The guiding principles are those of the CNO: "no tenant should do what a base can do more cost effectively; no base should do what a region can do more cost effectively; no region should do what the surrounding community can do more cost effectively" [Ref. 16]. Individual programs would develop their own Mission, Vision, and Guiding principles.

## **3. Regional Area**

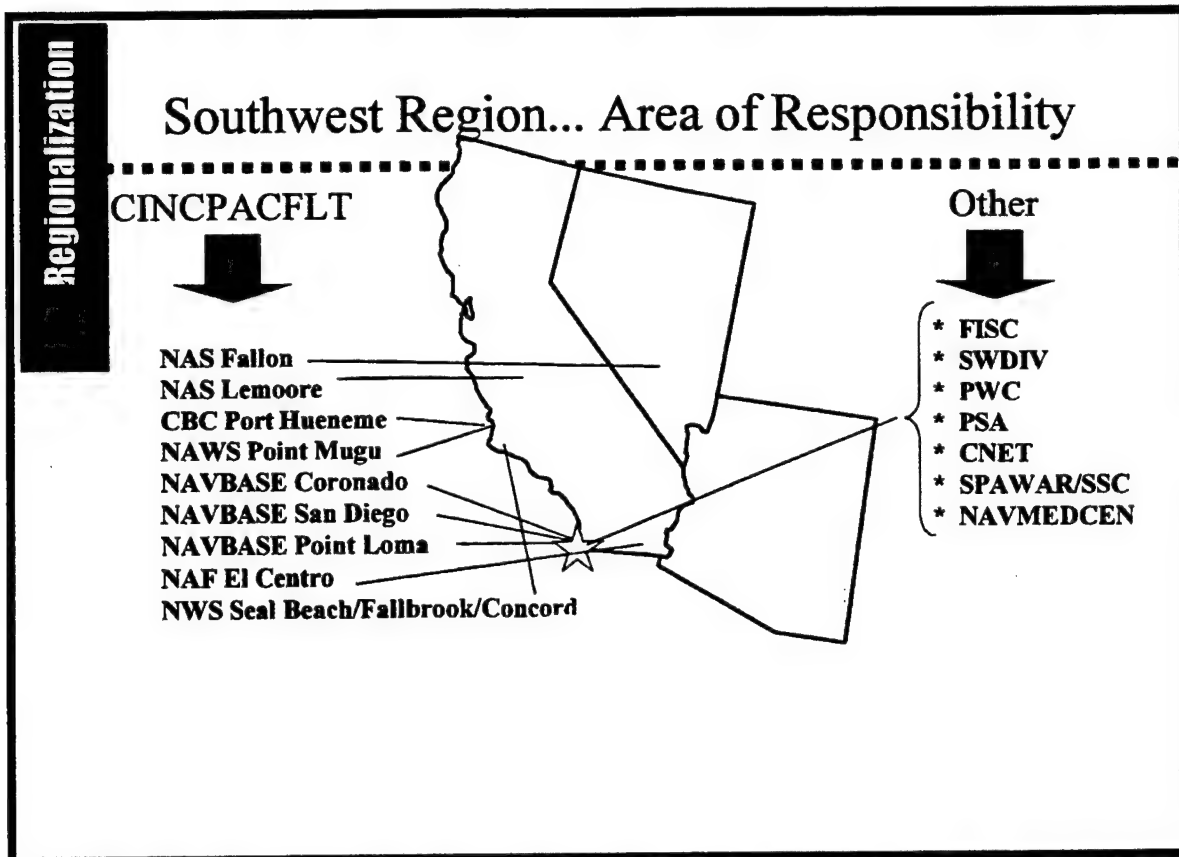
The Southwest Region includes the states of California, Nevada, and Arizona. The commands consolidated into the region include Naval Station Thirty-second Street, Naval Air Station Coronado, Naval Amphibious Base Coronado, Submarine Base Point Loma including the Fleet Combat Training Center and the Fleet Antisubmarine Warfare Training Base, and the Naval Medical Center. Other supported commands in the San Diego Metropolitan area include Space and Naval Warfare Command, Fleet and Industrial

Supply Center, Public Works Center, and other Naval activities. Excluded are all Marine Corps activities.

The Ventura County Complex contains Naval Air Weapons Station (NAWS) Point Mugu and Construction Battalion Center (CBC) Port Hueneme. Naval Air Station (NAS) Fallon, Nevada, NAS Lemoore, California and Naval Air Facility (NAF) El Centro, California are included in the region as "Over the Horizon" activities. Other activities outside the San Diego metropolitan area include the Naval Weapons Stations at Seal Beach, Fallbrook, and Concord, California. Three California Naval activities remain as stand-alone bases not included in any region: NAWS Corona, Naval Post Graduate School (NPS) Monterey, and NAWS China Lake. Figure 3-3 summarizes the geographic region.

#### **4. Regionalized Functions**

The Base Operating Support functions provided by Commander, Navy Region Southwest include: Freight Transportation, Material Procurement, Retail Supply, Food Service, Morale, Welfare and Recreation (MWR), Bachelor Quarters (BQ)/Housing, Family Support, Security, Safety/Federal Fire, Air Operations, Weapons, Maintenance, Vehicles/Support Equipment, Utilities, Facilities Acquisition, Land use, Base Realignment and Closure (BRAC), Port Operations, Ranges, Environmental, and Medical/Dental. Included in the Family Services are Family Service Centers, Family Advocacy Program, and Child Development Centers.



**Figure 3-3, Southwest Region Area of Responsibility [Ref. 16]**

### **5. Regional Structure**

Given the very large geographical, financial and support responsibilities of the Southwest Regional Commander it is not surprising that a fairly large and complex organization has been created to execute the regional mission. Command relationships are sufficiently complex that customers of the region have dubbed the organizational chart "the cosmic radiator".

The Regional Commander reports directly to CINCPACFLT and is responsible for execution of the regional mission and budget, as well as all Class I and II property in the region. The Regional Business office directly supports the Regional Commander and is

responsible for financial planning and execution, metrics, and strategic planning. The Regional Business Manager is the Commanding Officer of FISC San Diego.

Supporting the staff are the Assistant Chiefs of Staff (ACOS). These include: ACOS Logistics, also CO, Fleet and Industrial Supply Center (FISC) and the Regional Business Manager; ACOS Facilities, also CO, PWC; ACOS Infrastructure Planning; ACOS Support Services, ACOS Information Technology, also CO, NCTS; ACOS Public Safety, also CO, Point Loma Complex; ACOS Air Operations, also CO, Coronado; ACOS Weapons, also CO Seal Beach; ACOS Port Operations, also CO, Thirty Second Street; ACOS Ranges, also CO, NAS Fallon; ACOS Environmental, also CO, Point Loma; and ACOS, Health Services, also CO, Naval Medical Center. The ACOS is responsible for providing assigned services to each activity within the region, and provides, "the technical expertise, technical and specific training, program policy and standards, and allocation of resources (People & Money) at the Macro Level" [Ref. 12]. It is important to note here that although the COs are advocates for their respective bases, they no longer control allocation of resources or levels of service. This represents a significant change in Navy culture.

ACOSs are assisted in many cases by Program Managers (PM). One PM is assigned for each of the functions described above. In those cases where the ACOS is not also the PM, the PM oversees execution of individual programs. The Regional Commander is also supported by Directors, who oversee Internal Support Functions. They include Directors for Civilian Personnel, Command Evaluation, Legal Support, Public Affairs, Religious Services, Military Personnel, and Administration.



The Regional Executive Steering Committee (ESC) is responsible for, “defining and deploying regional strategy, allocation of resources, monitoring performance and customer feedback, and identifying areas for improvement” [Ref. 12]. Membership of the ESC includes the Regional Commander and Chief of Staff, the Regional Command Master Chief, the twelve ACOSs, and those base COs who are not also ACOSs. The ESC advisors include the directors and a non-voting union representative.

Finally, a Customer Advisory Board (CAB) advises the ESC. The CAB consists of Claimant representatives, AIRPAC, SURFPAC, SUBPAC, SPECWAR, CNET, SPAWAR, Base CO/XO/CMC, ACOSs, Directors, and the Southwest Region CMC. Figure 3-4 summarizes the organization.

The ACOSs are able to provide services to geographically dispersed activities through a “storefront” concept. Instead of individual services funded by and reporting to base Commanding Officers, service providers reside on bases but are centrally funded and report to the appropriate ACOS or PM. Essentially, the same people perform the same functions at the same activities as they did prior to regionalization, but a layer of middle management may be eliminated by consolidating individual base managerial functions at the regional level.

## **6. Flow of Funds**

As previously noted, the Regional Commander is now the primary Operating

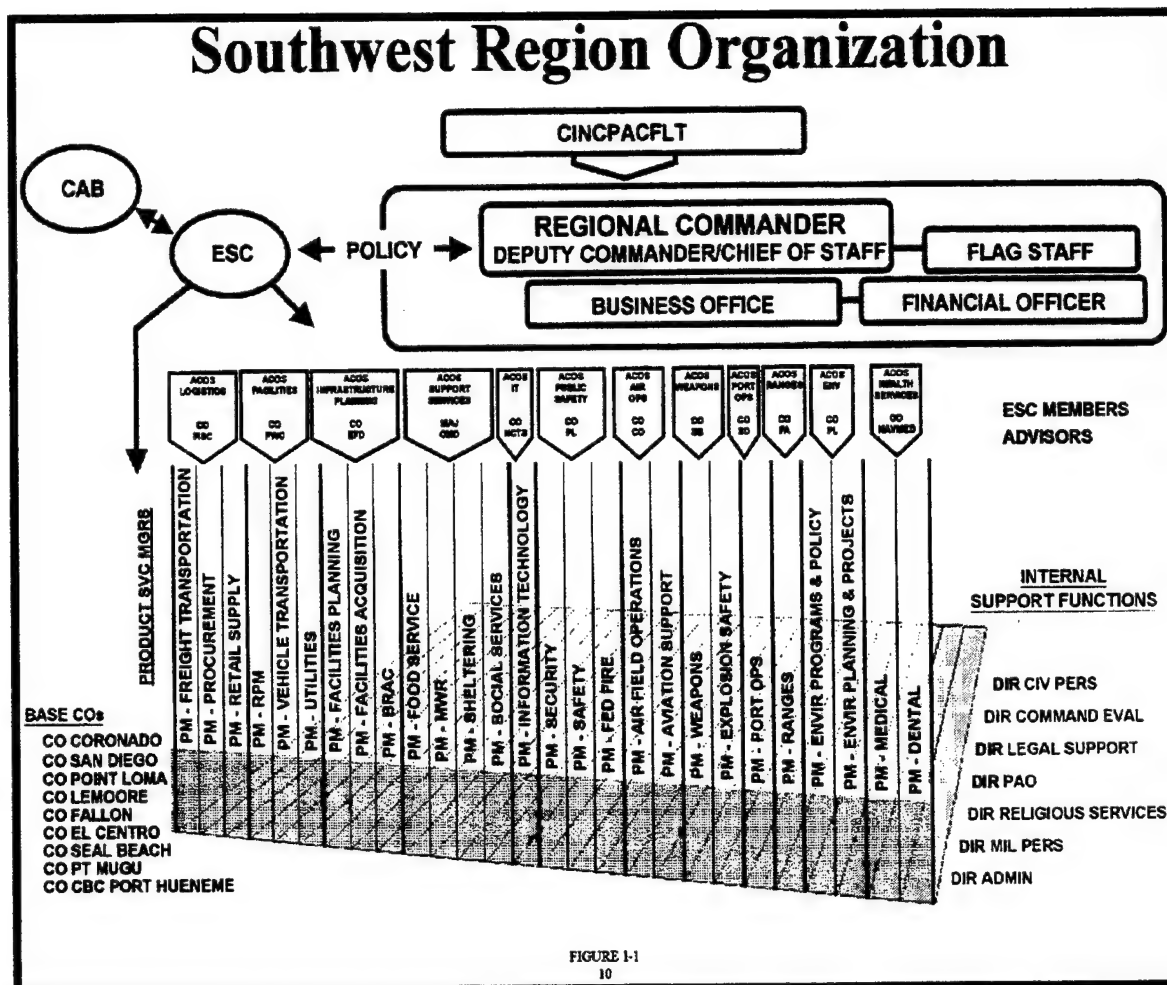
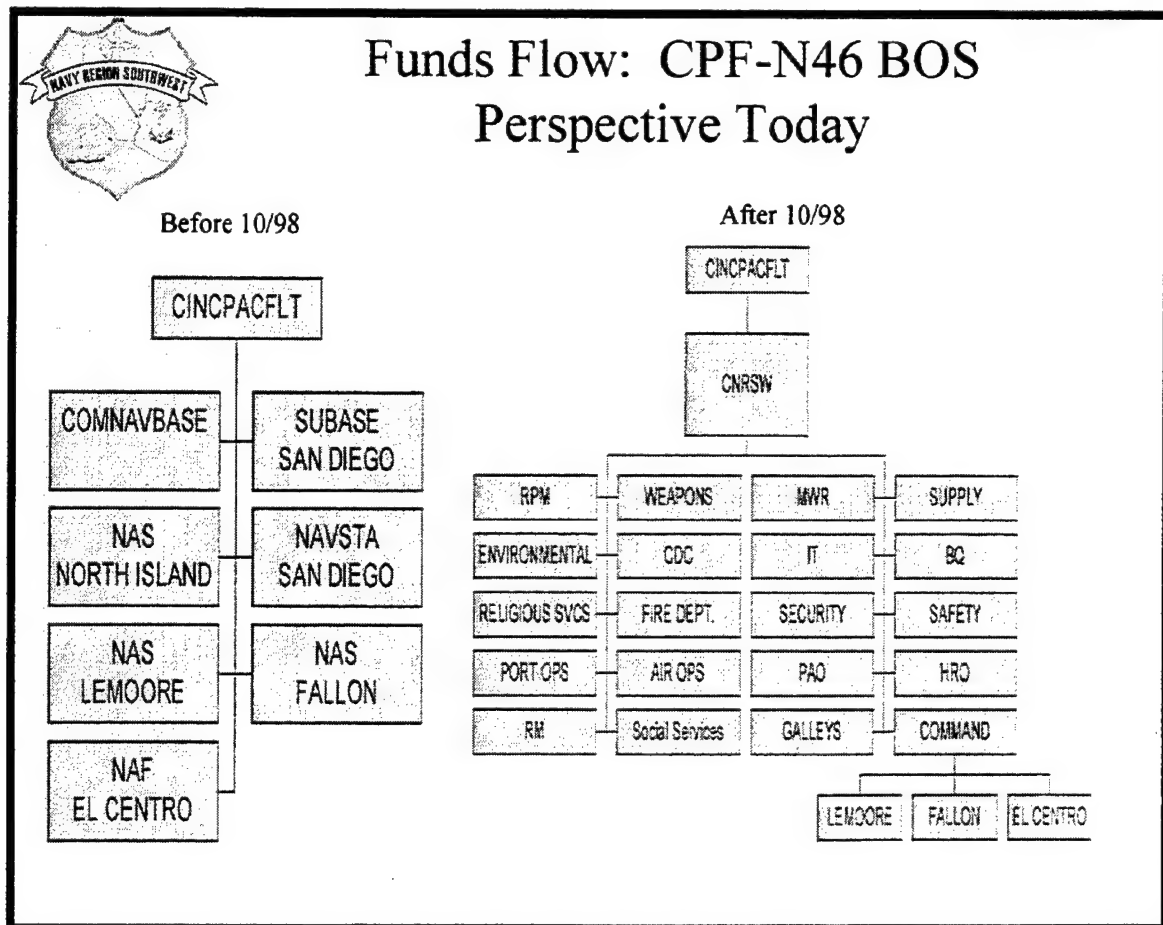


Figure 3-4, Southwest Region Command Structure [Ref. 52]

Budget holder for the region and has Anti-deficiency Act Section 1517 responsibility for BOS funds. The regional Comptroller is a Supply Corps O-6, who reports directly to the Regional Business Manager. The Comptroller is supported by a Budget Division, a Financial Services Division, and a Program Analysis Division.

The Budget Division performs budget execution/formulation, Civilian Personnel budget and payroll, Program Management support, and Resource Management/Program Manager support. The Financial Services Division performs fiscal accounting, fiscal

services, financial systems support, and disbursing and examination support. The Program Analysis Division monitors interservice support agreements/Memorandums of Agreement, Regional Business Office support, and Resource Analysis.



**Figure 3-5, Southwest Region Flow of Funds [Ref. 52]**

From the CINCPACFLT perspective, the flow of BOS funds is vastly simplified under regionalization. Seven operating budgets have been consolidated into two, and financial reporting is likewise consolidated. The Ventura County Complex has remained an operating budget (OB) holder because of the inability to consolidate all official

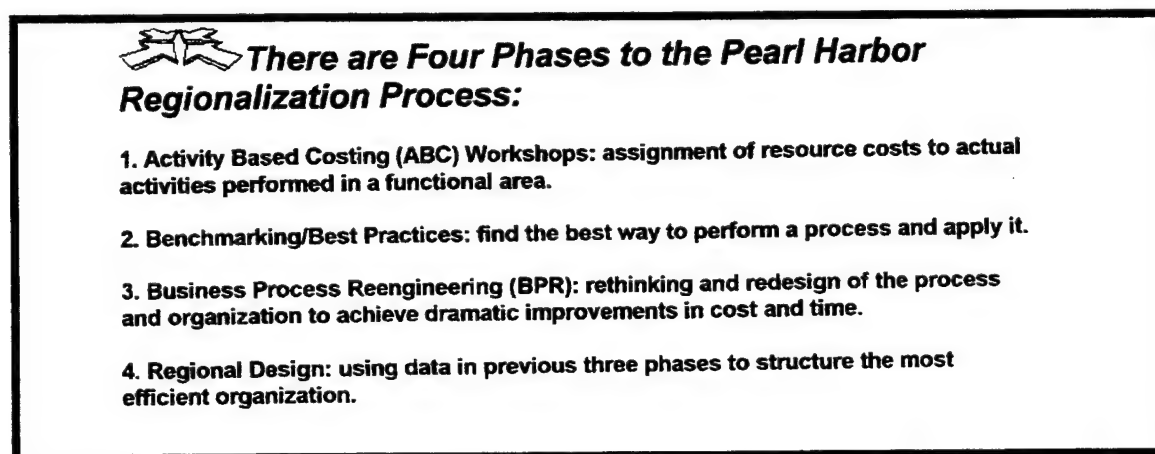
accounting records under one Defense Finance and Accounting Service Operating Location (DFAS OPLOC). This issue will be addressed further in Chapter IV.

Commander, Navy Region Southwest (CNRSW) distributes BOS funds along program lines, except that the three “Over the Horizon” activities are Operating Target (OPTAR) holders. CNRSW plans to combine these OPTARs under a “Remote Site Offices” concept in FY 2000. ACOSs and Program Managers distribute available funds, and storefront accounting activities perform financial execution, accounting, and reporting functions. Figure 3-5 depicts the flow of funds in the region.

## **C. NAVY REGION HAWAII**

### **1. Regional History**

Regionalization studies began in the Pearl Harbor area in mid-1996, and a four-phase process was envisioned. The steps are summarized in Figure 3-6 [Ref. 47].



**Figure 3-6, Phases In The Regionalization Process, [Ref. 47]**

From September to November 1996 COMNAVBASE Pearl Harbor, assisted by KPMG Peat Marwick, coordinated the efforts of eighteen SBCA teams and completed business case analyses for the BOS support functions studied. The studies were completed and forwarded to OPNAV N46 for review, projecting annual savings of \$18 million.

On 11 August 1997 the DCNO (Logistics) approved the recommendations contained in the Pearl Harbor SBCA for immediate implementation and directed that implementation, "...must be completed as soon as possible (no later than FY 2000) [Ref. 14]. CINCPACFLT was designated to lead the implementation.

Geographic consolidation was directed as follows [Ref. 14]:

- Transfer of all class 1 and 2 real property ownership in Pearl Harbor, with limited exemptions, to CINCPACFLT.
- Consolidation of all Navy base support on Oahu under one command and one major claimant (CINCPACFLT).
- Merger of NAVSTA Pearl Harbor, SUBBASE Pearl Harbor, and NAS Barbers Point into a single command.
- Transfer of all installation management functions from current tenants and hosts to the single host, or other commands as designated by CINCPACFLT, per the Pearl Harbor SBCAs, with commensurate decreases in management and support personnel.
- Development of specific staffing of resultant organization by CINCPACFLT with assistance from other affected claimants.

In addition to Geographical consolidation, OPNAV directed the following [Ref. 14]:

- Regionalize common real property management functions under a single command per the Real Property Management SBCA.

- Regionalize common environmental functions under COMNAVBASE Pearl Harbor with individual commands retaining specific functions per the Environmental SBCA.
- Regionalize common base security functions under a single command designated by CINCPACFLT with daily operations directed through East and West precincts per the Security SBCA.
- Regionalize safety under a single lead activity designated by CINCPACFLT per the Safety SBCA.
- Implement the process improvements and cost reduction initiatives identified in the Procurement SBCA. Complete the FISC partnering efforts and continue dialogue to move towards a single procurement activity in the region.
- Regionalize passenger transportation on Oahu under a single lead activity per the Passenger Transportation SBCA.
- Consolidate freight transportation under FISC Pearl Harbor per the Freight Transportation SBCA.
- Regionalize all retail supply operations for all activities under partnership with FISC Pearl Harbor per the Retail Supply SBCA.
- Consolidate Public Affairs functions under a single regional office under COMNAVBASE Pearl Harbor per the Public Affairs SBCA.
- Consolidate common resource management functions under COMNAVBASE Pearl Harbor and standardize accounting systems and hardware/software per the Resource Management SBCA.
- Consolidate and regionalize ADP/IT services under the RITC concept per the ADP/IT SBCA. Expand consolidation beyond the CINCPACFLT claimancy to all activities on Oahu.
- Regionalize Food Services (galleys) under a single command per the Food Services SBCA.
- Regionalize Morale, Welfare, and Recreation (MWR) functions under a single command per the MWR SBCA.

The region was formally instituted 01 October 1998, and regionalization of functions is ongoing. The SBCA functional team studies were subsequently revised, and annual savings are now estimated at \$2.083 million [Ref. 22]. Phases two through four of the process are not complete.

## **2. Mission, Vision, and Guiding Principles**

The mission of the Pearl Harbor Region is, "to support the Navy's 'product line'; forward-deployed ships, submarines and aircraft that influence events real-time around the world"[Ref. 47]. The first Pearl Harbor Regionalization status report identified the vision: "Our vision for the region is that implementing regionalization in Pearl Harbor will result in increased support and service to the ships, planes, submarines and the sailors and their families stationed in Hawaii" [Ref. 10]. The guiding principles are identical to those of the CNO and the Southwest Region.

## **3. Regional Area**

Navy Region Hawaii includes Naval Activities on the Islands of Oahu and Kauai. The Pearl Harbor Complex is comprised of Pearl Harbor Naval Shipyard, Naval Station Pearl Harbor, Submarine Base Pearl Harbor, and Fleet and Industrial Supply Center Pearl Harbor. Other Tenants include the Navy Intermediate Maintenance Facility and Commander in Chief, U.S. Pacific Fleet. Other activities on the Island include Naval Magazine Lualualei, the Naval Communications Area Master Station, Eastern Pacific, the Naval Security Group Activity, Kunia, and Naval Air Station Barbers Point.

Navy Region Hawaii is geographically the smallest region, and regionalization of many functions has been facilitated as a result. Figure 3-5 summarizes the region.

#### **4. Regionalized Functions**

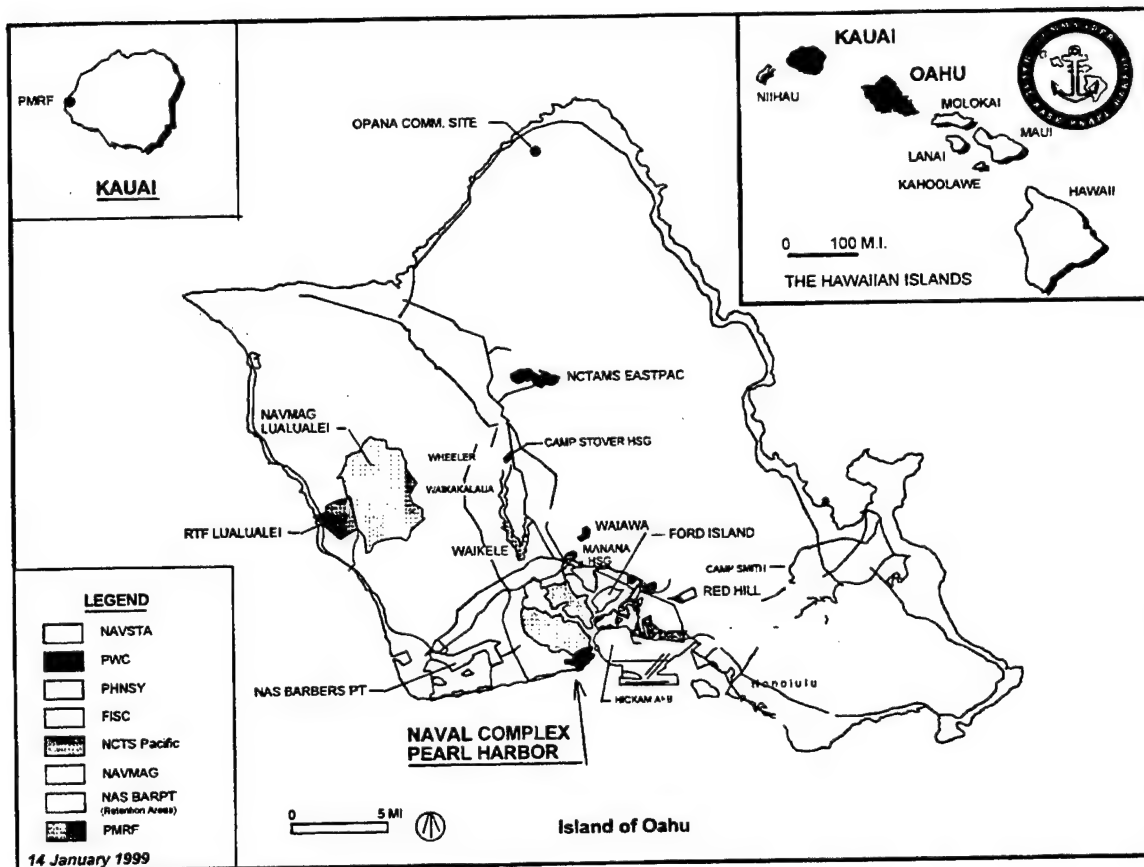
The eighteen regionalized functions are: ADP/IT, Command Evaluation/IG, Command and Staff, Safety, Consolidated Housing and Barracks, Environmental, Family Services (including Family Advocacy), Food Services, MWR, Port Operations, Procurement, Public Affairs, Facilities Management, Resource Management, Retail Supply, Security, Training, and Transportation.

#### **5. Regional Structure**

The concentrated nature of Navy activities in Hawaii has made regionalization of functions in the Hawaii region a slightly less daunting task than was the case in the Southwest Region. All activities are serviced by the same DFAS OPLOC, and face to face coordination is possible for most issues.

The Regional Commander Reports directly to CINCPACFLT and is responsible for execution of the regional mission and budget, as well as all Class I and II property in the region. The Regional Business Manager position was created as a result of regionalization and is filled by a Civil Engineering Corps O-6. The regional business manager directly supports the Regional Commander and is responsible for, "financial planning and execution, strategic planning, resource allocation based on a business like approach, and assisting Program Managers to ...provide equal or better service at less cost" [Ref. 42]. Unlike the Southwest Region, the Hawaii area Regional Business Manager is a dedicated position with no other command duties.





**Figure 3-7, Navy Region Hawaii [Ref. 22]**

Supporting the staff are the Program Managers. Program Managers are responsible for, “the management, control and carrying out the assigned regionalization program and to provide the Installation Commander (IC) with functional support and service to perform the assigned mission. The Program Manager also exercises control over resources (personnel/funding) and develops regional budget requirements” [Ref. 46]. Additionally, PMs, “will also execute annual budgets in accordance with budget guidance and priorities set by Pearl Harbor Shore Executive Board (SEB) and ensure high standards and customer requirements are being met...Program managers are responsible for the

safety, welfare, professional development of personnel and working environment and functions similar to a tenant in a host/tenant relationship” [Ref. 46]. The Hawaii Region PMs include: PM Medical Services, also CO NAVMEDCEN; PM Dental Services, also CO Navy Dental (NAVDEN); PM Regional Chaplain, PM Training, also CO, Navy Submarine Training Center, Pacific (NSTCP); PM, Base Communications also CO Naval Computer and Telecommunications Command (NCTAMS); PM Port Operations, also CO NAVSTA Pearl Harbor; PM Air Operations, also CO, NAS Barbers Point; PM Range Operations, also CO, PMFR; PM, Ordnance (Air and Sea), also CO, NAVMAG Lualualei; PM Supply/Logistics, also CO, FISC; PM, Retail Supply, also CO, FISC; PM, Freight Transportation, also CO, FISC; PM, Procurement, also CO, FISC; PM, Facilities Management, also CO, PWC; PM, Environmental, also CO, PWC; PM, Passenger Transportation, also CO, PWC; PM Procurement – Facilities and Maintenance, also CO, PWC; PM Safety, also CO, PWC; PM Base Services, also CO, NAVSTA Pearl Harbor; PM Family Services, also CO, NAVSTA Pearl Harbor; PM, Federal Fire, also CO, NAVSTA Pearl Harbor; PM, Security, also CO, NAVSTA Pearl Harbor; PM Food Services also CO, NAVSTA Pearl Harbor; PM MWR, also CO, NAVSTA Pearl Harbor; PM, Bachelor Quarters, also CO, NAVSTA Pearl Harbor. The Regional Commander is also supported by Special Assistants, who oversee Internal Support Functions. These include Special Assistants for: Intergovernmental Affairs, Ford Island, PAO, Inspector General, Regional Environment Counsel, Public Safety, and JAG. The Regional Structures are illustrated in Figures 3-8 and 3-9.

The Shore Executive Board serves the Regional Commander as an executive decision making and advisory board. The SEB has five guiding principles [Ref. 58]:

- Within SEB, members are first regional advisors to the Regional Commander, second, Commanding Officers and/or Program Managers.
- Think and manage regionally.
- All recommendations begin with 'What is best for the region...'.- Teamwork and creative solutions will be rewarded.
- PMs control functional resources.

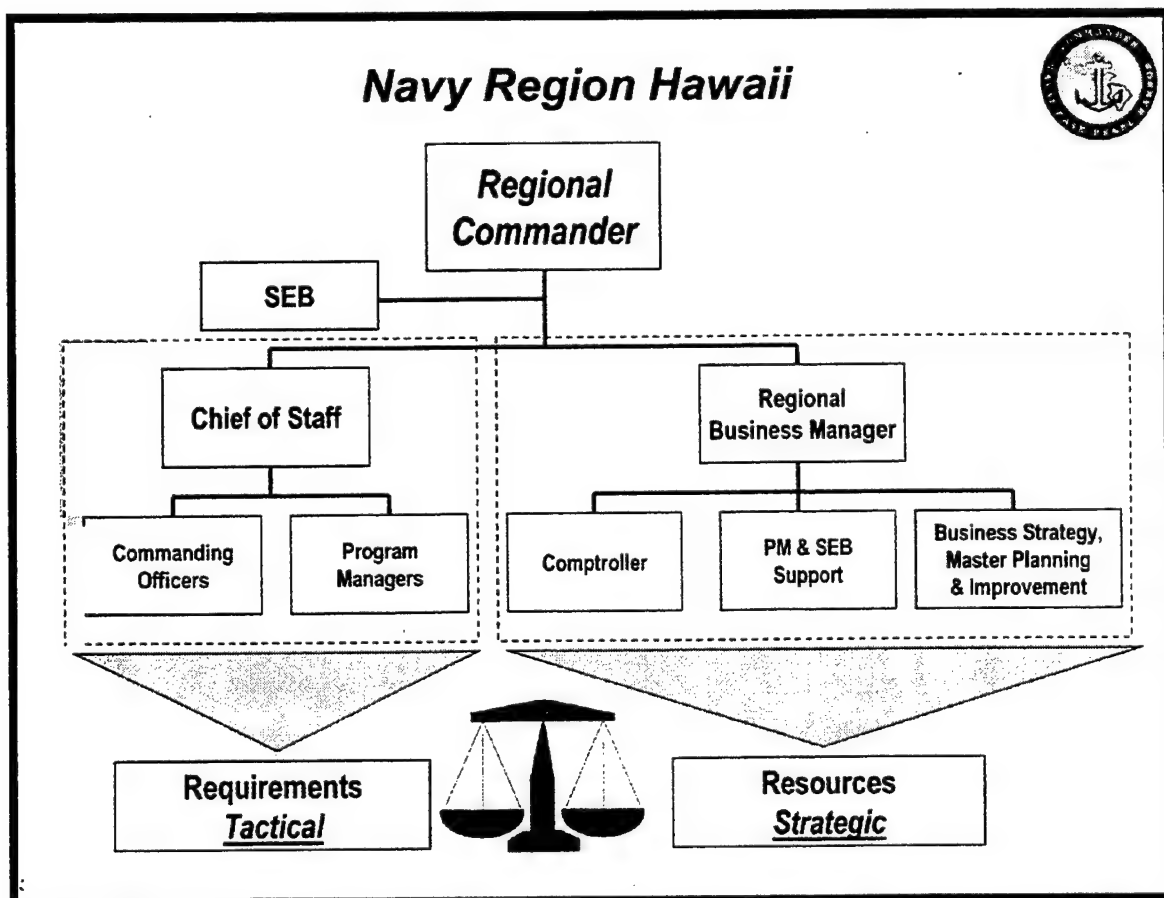


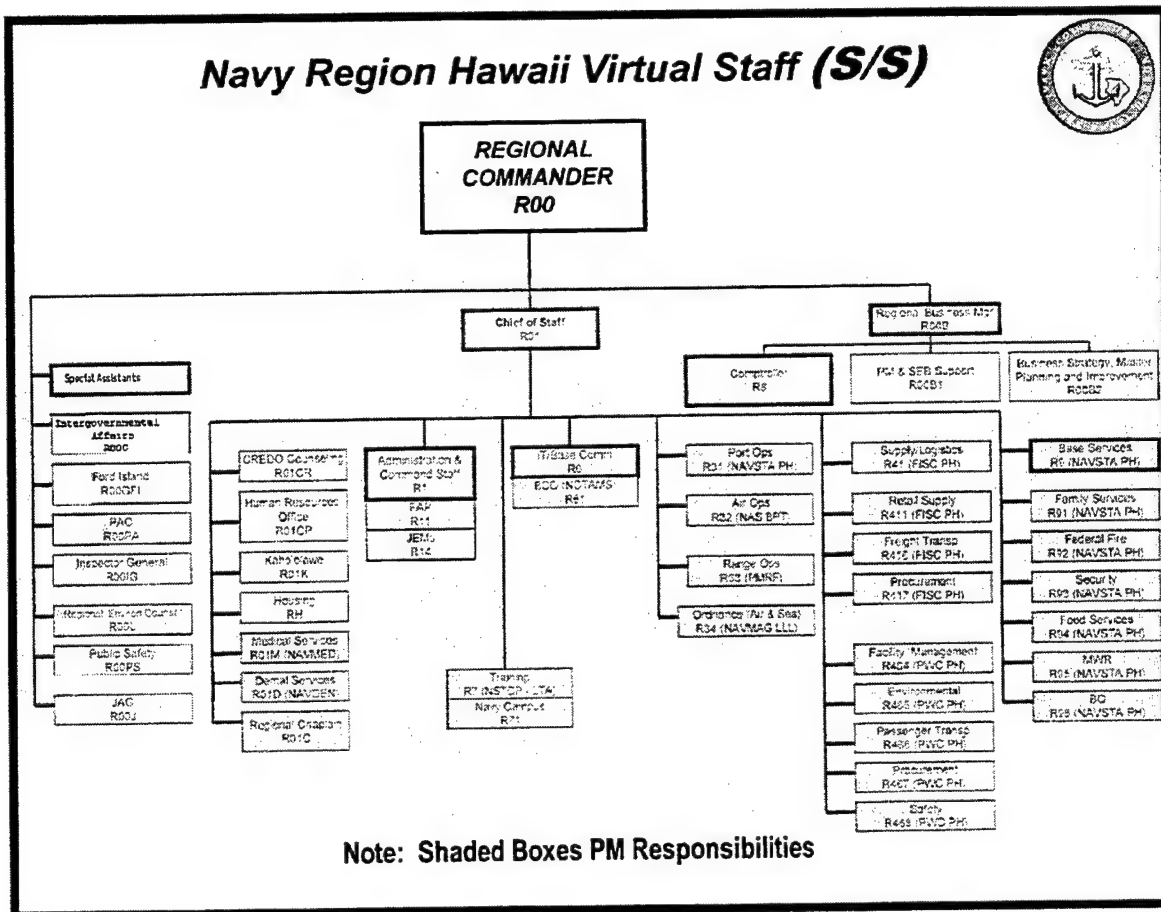
Figure 3-8, Navy Region Hawaii Command Structure [Ref. 42]

Membership of the SEB is divided into voting members and observers. Voting members include the Regional Commander and Chief of Staff, the Regional Business Manager, the COs of NAVSHIPYARD Pearl Harbor, PACMISRANFAC HAWAREA Barking Sands, NAVSTA Pearl Harbor, NAS Barbers Point, PWC Pearl Harbor, FISC Pearl Harbor, NCTAMS PAC Honolulu, and NAVMAG Lualualei. Observers include COs of NAVDENCEN Pearl Harbor, NAVMEDCLINIC Pearl Harbor, NAVPACMETOCCEN Pearl Harbor, NAVSECGRUACT Kunia, and NAVSUBTRACENTPAC Pearl Harbor.

Navy Region Hawaii also utilizes the storefront concept. Instead of individual services funded by and reporting to base Commanding Officers, service providers reside on bases but are centrally funded and report to the appropriate PM. The regions stated "Storefront Synergy Goal" is "Sharing personnel and costs to perform various functions equals efficiency and savings" [Ref. 58].

## **6. Flow of Funds**

Commander, Navy Region Hawaii is the primary Operating Budget holder for the region, and has Anti-deficiency Act Section 1517 responsibility for BOS funds. The regional Comptroller is a GS-14, who reports directly to the Regional Business Manager. The Resource Management/Comptroller division is supported by fifty-five personnel [Ref. 42]. The Division performs budget execution/formulation, CIVPERS budget and payroll, and Resource Management.



**Figure 3-9, Navy Region Hawaii Staff [Ref. 58]**

BOS funding in the Hawaii region is distributed along program lines by the Regional Business Manager staff. Program Managers distribute available funds, and storefront accounting activities perform financial execution, accounting, and reporting functions. All programs studied for regionalization are expected to be fully implemented by 01 October 1999.

## **D. NAVY REGION NORTHWEST**

### **1. Regional history**

The Pacific Northwest Region is the most recently formed of the three regions examined. Unlike the Southwest and Hawaii Regions, no SBCA was performed for the Northwest Region. Instead, under the leadership of COMNAVBASE Seattle, thirty functional areas were "examined" based on the experience of the other Pacific Regions, with CINCPACFLT guidance, and initial KPMG support. From the thirty functions studied, thirteen regional programs were identified. No cost savings estimate was performed.

Prior to standing up a regional organization, the Navy Working Capital Funded (NWCF) Puget Sound Naval Shipyard had to be segregated into BOS and NWCF activities. As a result, Naval Station Bremerton was created. NAVSTA Bremerton, an O-6 command, was created to separate support of homeported ships from shipyard funded activities.

CINCPACFLT was the approval authority for regional consolidation in the Northwest, and regionalization plans were approved in July 1998. On 01 October 1998, Commander, Navy Region Northwest assumed responsibility for BOS functions in the area. Because of the accelerated nature of the regionalization implementation, ICC, regionalization, and preliminary A-76 studies happened nearly simultaneously. Regionalization of programs is ongoing throughout Fiscal Year 1999, with all programs scheduled to be fully regionalized by 01 October 1999.

## **2. Mission, Vision, and Guiding Principles**

The Regional Mission statement is as follows:

As the regional coordinator for the Navy in the four-state area of Washington, Oregon, Idaho and Alaska, Navy Region Northwest provides coordination of base operating support functions for operating forces throughout the region. This includes providing expertise in areas such as facilities and land space management, exercise coordination, housing, environmental, security, family services, port services, air services, bachelor quarters and logistical concerns for the thousands of Navy members and their families in the area, including homeported and transient ships, submarines and aircraft, as well as afloat and ashore tenants. The command also serves as the reporting senior for the Commander in Chief, U.S. Pacific Fleet, headquartered in Hawaii, for Naval Air Station Whidbey Island; Naval Station Everett; Naval Station Bremerton and Submarine Base Bangor [Ref. 50].

The Region provided the most comprehensive vision statement and guiding principles of any region studied. In addition to the CNO's four "cardinal" principles, the philosophy of the region has been narrowly defined: [Ref. 49].

### **VISION STATEMENT**

The US Navy in the Puget Sound will become, by the turn of the century, more like a single integrated business. Fleet units and shore commands will focus on core missions and functions. Support services will align into regional/subregional "businesses" to provide improved fleet readiness while reducing cost. This realignment will result from fair and open collaboration between area commands and federal activities, local communities, customers and employees. Puget Sound naval installations will become the model for similar Navy activities and civilian enterprises.

## **GUIDING PRINCIPLES**

- There is strength in regionalization. The more efficient we become, the more solid our foundation.
- The objective (is) to reduce costs for shore support so more resources will be available for readiness, modernization and people/QOL.
- Change will normally only be initiated to achieve expected improvements in services or cost reduction/avoidance.
- Commit to fairness and to continuously revitalizing our work force through training and new hires.
- Open, timely communication is critical. Conflicting, confusing, inaccurate information can destroy trust and delay worthwhile initiatives.
- There is no "end state"
- Build the idea of "continuous learning, change and improvement" into every organizational layer and business.
- Some things are beyond our purview or control. Focus primary attention on areas we can improve.
- No tenant should do what a host can do. No host should do what can be done by a regional or subregional business.
- The Navy should not do what the surrounding community can do better or more cost effectively.
- The number of tenants and host commands providing support services will be reduced to the minimum.
- Seek partnerships with other DoD and Federal agencies, local governments and community entities to improve performance or reduce costs.
- There is no single "right answer."
- Enable Navy service providers to become as competitive as possible prior to exploring outsourcing and privatization options.



- Change will not be constrained by traditional organizational boundaries.
- Cost avoidance or savings will not be achieved by transferring costs to other activities.
- Don't wait for funding lines to be "sorted out" before making needed business or organizational changes. Use MOUs and ISAs to move toward the future and drive funding requirements.
- Savings or cost avoidance should be reinvested back into regionalization when such investments can yield further savings or cost avoidance.
- "Don't close the storefronts. " Maintain direct contact with and full involvement of customers.
- Centralizing or regionalizing functions will not impair customer services.
- Decision making authority should be kept close to the customer. Don't substitute asking permission for making a decision that is yours to make.
- Know the customers - internal and external - and their requirements.
- Incorporate Measures of Effectiveness (MOE) that support realistic shore and long term goals and milestone. Customer MOEs and expectations should be our primary measures of success.
- Learn from and build on the success of earlier regionalization efforts in our own and other regions.

### **3. Regional Area**

The Northwest Region encompasses the four-state area of Washington, Oregon, Idaho and Alaska. It is the Navy's third largest fleet concentration area [Ref. 50]. The major Navy installations in the region include: Naval Station Bremerton, Naval Station Everett, Naval Air Station Whidbey Island, and Submarine Base Bangor. Other Naval Commands in the Pacific Northwest include: Commander, Submarine Group Nine; Puget

Sound Naval Shipyard; Naval Hospital Bremerton; Naval Hospital Oak Harbor; Naval Dental Center Northwest; Naval Undersea Warfare Center Keyport; Fleet and Industrial Supply Center Puget Sound; Human Resource Regional Center Silverdale; Fleet Imaging Command Pacific; Commander, Electronic Combat Wing Pacific Fleet; Commander, Patrol Wing 10; Naval Intermediate Maintenance Facility Pacific Northwest; Naval Radio Station Jim Creek, and Naval Ordnance Center PACDIV, Port Hadlock Detachment. Figure 3-11 depicts the region.

Despite the seemingly concentrated geographic area of the major bases and tenants, the unique geography of the Puget Sound area makes regional coordination problematic. The bases are separated by large expanses of water, known locally as the "Sound barrier." The difficulty of achieving physical contact with Directors, Program Managers, and Commanding Officers has been a major issue in the regionalization of PACNORWEST. Figure 3-12 is included to illustrate the time required to move between activities within the region.

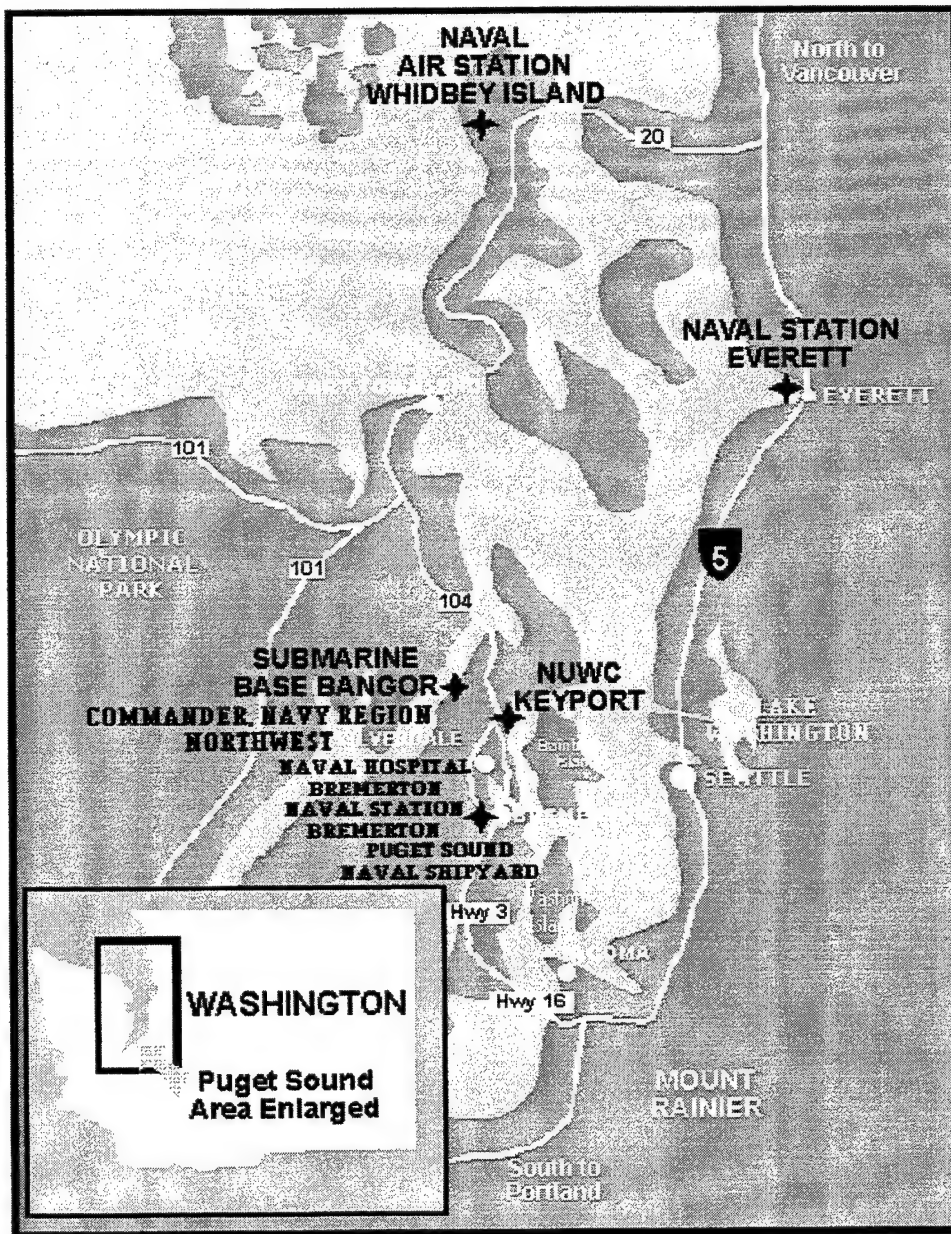
#### **4. Regionalized Functions**

The thirteen support programs identified for regionalization included eight which began operating regionally on 01 October 1998: Resource Management, Port Operations, Community Programs, Information Technology, Public Safety, Food Services, Management of Real Property/Public Works, Logistics/Material Transportation. The five remaining programs that are expected to be regionalized by 01 October 1999 include: Environmental, Audio/Visual, Command & Staff, CIVPERS/MILPERS, and Safety.

Several functions that are stand-alone programs in the other regions are combined under one program in PACNORWEST. Community Programs includes Bachelor Quarters, MWR, Family Services and Family Housing. Public Safety includes Fire, Police, and Disaster Management. Programs not assigned program managers are managed by installation Commanding Officers.

## **5. Regional Structure**

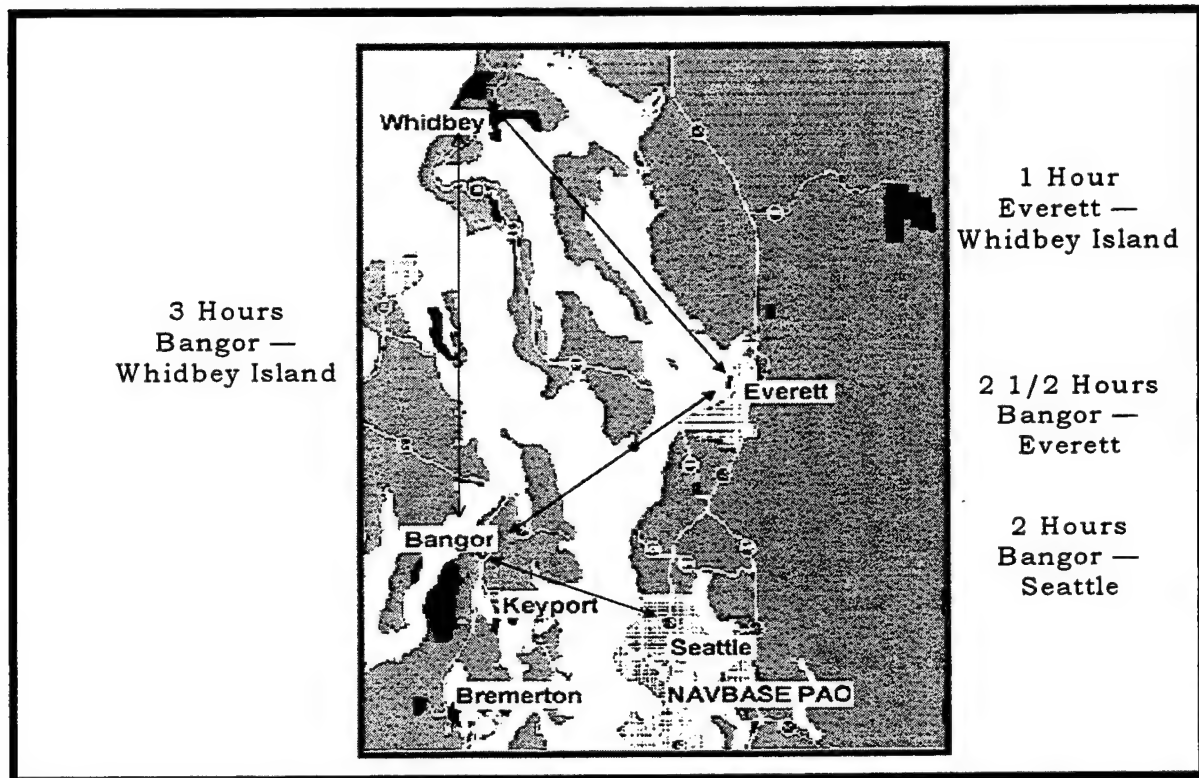
As the newest of the three regions studied, the Northwest regional structure is still evolving. However, the key elements and basic structure are firmly in place. The Regional Commander Reports directly to CINCPACFLT and is responsible for execution of the regional mission and budget, as well as all Class I and II property in the region. The Regional Business Manager is a Supply Corps O-5 who was transferred TDY from FISC Puget Sound and is physically located within the Regional Commanders building and staff. Unlike the other regions, the Northwest Regional Comptroller does not report to the Regional Business Manager. The Comptroller position was created for the regionalization effort and the Comptroller reports directly to the Regional Commander/Chief of Staff. The Northwest Regional Commander is supported and advised by the Board of Directors. The Board is composed of the Commander and Chief of Staff of the Region and Commanding Officers of Naval Submarine Base, Bangor, Naval Station Everett, Naval Air Station Whidbey Island, and Naval Station Bremerton. The Board is described as the means to sustain a "collegial" process, and consensus for the sake of the region is stressed. Directors, as well as Commanding Officers of major commands providing program support, also function as Assistant Chiefs of Staff.



**Figure 3-10, Northwest Region [Ref. 51]**

The Region is also served by a “Guiding Coalition” that consists of the Regional

Commander, Chief of Staff, Board of Directors, and the Commanding Officers of TRF Bangor, FISC Puget Sound, EFA Northwest, NCTS Puget Sound, PSNS, NUWC Keyport, SWFPAC, Naval Hospital Bremerton, NDC Bremerton, and TTF Bangor.



**Figure 3-11, Distance Between Pacnorwest Activities [Ref. 51]**

Supporting the Board of Directors/ACOSs are Program Managers and Deputy Program managers. The program managers are responsible for management and execution of program functions and budgets across the region. There are Program Managers for Audio Visual, Command and Staff, Community Services, Environmental Services, Food Services, Information Technology, Material Transportation, Port Operations, Public Safety, Public Works/MRP, Financial Resources Management, Retail Supply, and Safety.

Deputy Program Managers exist for Bachelor Quarters, Family Housing, Family Services, MWR, Security, Fire, and Emergency Management. The Regional Structure is illustrated in Figure 3-13.

Like the other two regions studied, Navy Region Northwest utilizes the storefront concept to provide service throughout the region. The service providers reside on bases, but are centrally funded and report to the appropriate PM. It is described by the Regional Staff as follows: "At each local site, or storefront, we expect that the people currently performing the function will continue to perform that function at the same location working for the same boss. The primary responsibility of the local workers is to provide the same high quality service ..." [Ref. 48].

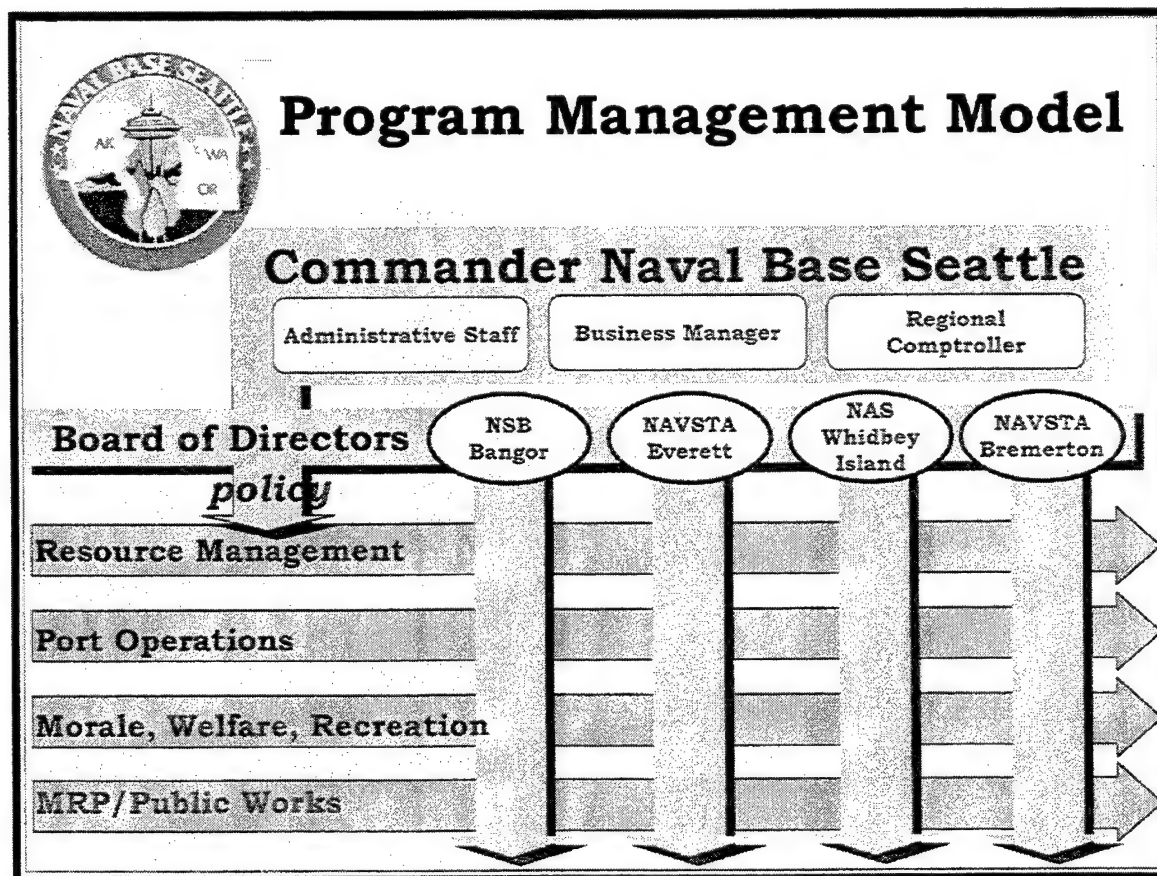


Figure 3-12, Navy Region Northwest Command Structure [Ref. 51]

## **6. Flow of Funds**

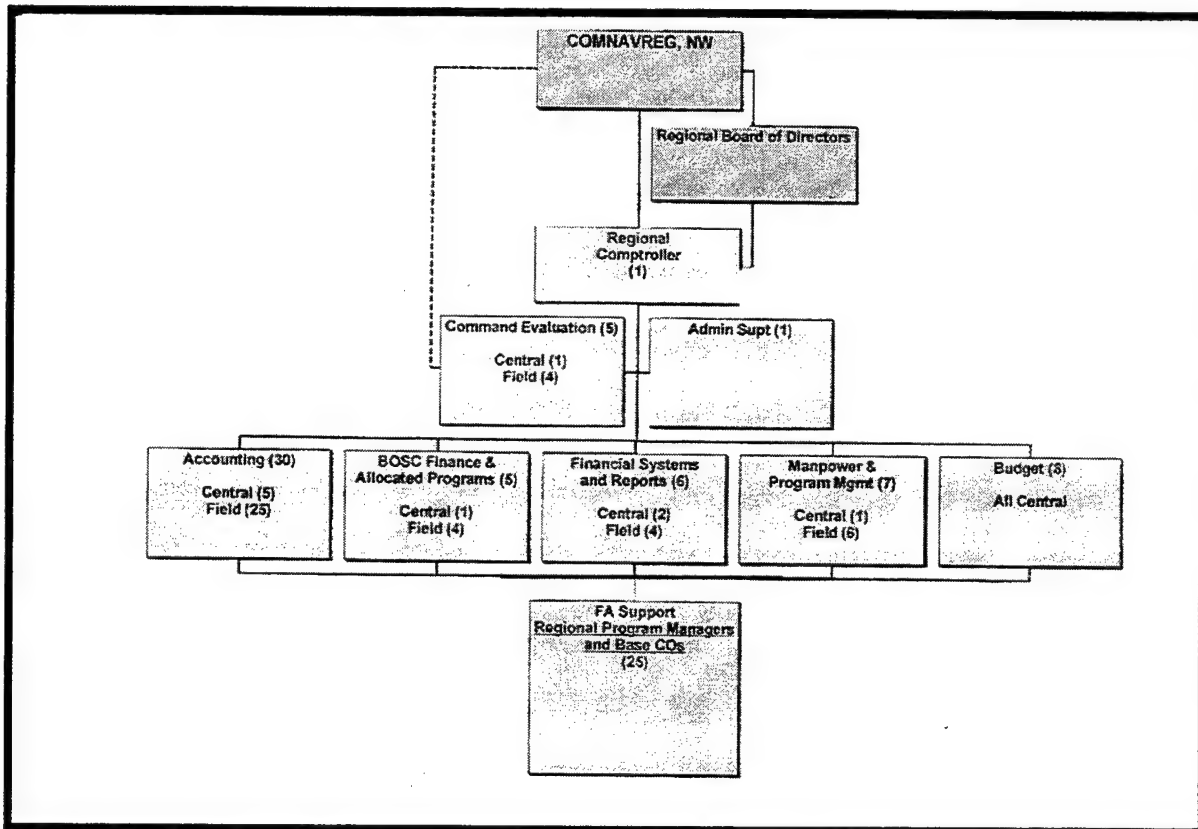
Commander, Pacific Northwest Region is the only BOS Operating Budget holder for the region and has Anti-deficiency Act Section 1517 responsibility for BOS funds. The regional Comptroller is a GS-15 Civil Servant who is a member of the regional staff and reports directly to the Regional Commander via the Chief of Staff. The Comptroller is supported by a Budget Division, a Financial Systems and Reports Division, an Accounting Division, a BOS Finance & Allocated Programs Division, and a Manpower & Program Management Division, as shown in Figure 3-13. Storefront, or "field" personnel perform funds administration at the program Manager/Base CO level. Additionally, the Regional Comptroller is responsible for Command Evaluation. There are eighty-eight civilian positions within the Comptroller Organization [Ref. 56].

All BOS funds for the Region are provided by CINCPACFLT to the Northwest Regional Commander. The Budget is then distributed along program lines by the Budget Division and the Comptroller and executed by the Program Managers. Accounting and reporting is accomplished by the storefront organizations, reporting to the accounting division for the Regional Comptroller organization.

## **E. CHAPTER SUMMARY**

Examination of the three regional commands described above reveals that, although they are similar in structure and purpose, there are differences in their philosophy, methodology, and roles. All three regions have efficiency as their primary goal, but the degree to which regionalization is treated as a cost savings measure





**Figure 3-13, Northwest Region Comptroller Organization, [Ref. 56]**

vice a performance enhancement measure differs. Also, because the regionalization of the Hawaii and Northwest regions was accelerated, lessons learned from the Southwest Region have not been applied, as was originally intended when COMNAVBASE San Diego was chosen as the pilot regionalization site. Finally, the degree to which commands in the regions have participated in and contributed to regionalization differs. These issues are discussed in Chapter VI.

Despite the differences in the organizations, a common rhetoric is present in each - the use of "best business practices" coupled with "measures of effectiveness" borrowed from leading corporations and based on current business literature, to achieve greater



efficiency and thereby improve levels of support while reducing costs. The keys to evaluation of regionalization lie in determining what those business practices and measures of effectiveness should be, determining the degree to which they have been applied, and determining whether and to what extent this initiative is meeting its objectives.

## **IV. STATUS OF REGIONS**

### **A. CHAPTER INTRODUCTION**

The purpose of this chapter is to examine the status of regionalization and its effects. The regions are not yet functioning in "most efficient organization" status, and it would be premature to attempt to evaluate them. However, the regions are sufficiently formed that some conclusions may be drawn about their structures, foci, and results to date.

The comments, opinions, and experiences of personnel working on regional staffs, personnel supported by the regions, and Type Commander personnel representing the interests of operational forces will be included in this chapter. This will provide the foundation for the discussion of evaluation criteria in Chapter V by linking the evolving regional structures to the "best business" criteria against which they will be evaluated.

### **B. VIEWS ON ONGOING IMPLEMENTATION**

#### **1. Acceleration of Regionalization**

Acceleration of regionalization has led to near simultaneous implementation of major changes. Participants view this with concern. According to a Navy official on the Southwest Regional Staff, "Trying to combine Installation Claimant Consolidation (ICC), regionalization, and A-76 studies is like trying to land three airplanes on the same runway at the same time. There is no way to plan it and execute it, you just have to do the best you can and hope there isn't a disaster"[Ref. 36]. None of the three regions studied is yet fully functioning along regional lines, yet regionalization has been accelerated. This

acceleration has caused ICC and regionalization to happen simultaneously in some cases. The simultaneous occurrence of these two sweeping changes in Navy infrastructure, combined with the initiation of A-76 studies, hinders the ability to reach Most Efficient Organization (MEO).

VADM J.F. Amerault, DCNO Logistics, warned that by combining other “wedge” reduction strategies with A-76 efforts, “...Navy may find itself in double jeopardy.” Manpower savings projections from regionalization and commercial sourcing may be treated as cumulative by OSD, when in fact they may be the same billets. An official in the CINCPACFLT Comptroller organization puts it this way: “ICC, regionalization, and A-76 projected cuts are the same people. It’s triple jeopardy” [Ref. 25]. The primary danger in combining these efforts, and their projected savings, is a result of the federal budgeting process. As a result of budget planning in the Future Years’ Defense Plan (FYDP), the projected savings are taken up-front without regard to the consequences. In fact, Navy budgets already have been adjusted to allow for savings from the three initiatives, despite the fact that, even in the most optimistic estimates, substantial savings from the initiatives are still two to three years off. Budget cuts in the midst of regionalization make it difficult to separate the effects of one from the other.

Another pitfall associated with initiating A-76 commercial sourcing studies in the midst of regionalization is that MEO has not been reached. A basic assumption of the OSD outsourcing philosophy, highlighted by the CNO, is that existing Navy service providers are allowed to compete with commercial providers in the outsourcing process. If the studies are conducted in the midst of regionalization, before organizations reach

MEO, it is more likely that functions will be outsourced to contractors who may not be as efficient as the government activity they replace.

One regional comptroller described performing A-76 studies while regionalizing as, "...a major, major mess" [Ref. 35]. In addition to the financial considerations already noted, he pointed out the human factors. Workers, already unsure of their job security as a result of regionalization, and performing additional functions necessary because of a hiring freeze, are now directed to devote time and attention to a study designed to phase out their jobs in favor of a civilian contractor. Low morale and reduced productivity are the predictable results [Ref. 35].

Simultaneous implementation of regionalization and installation claimant consolidation also has implications for resulting regional efficiency. By regionalizing before ICC issues are resolved, regional funding and service levels are set without the full benefit of assets, or a full appreciation of the customer base. The later inclusion of as yet undetermined claimancy functions in the region may require increased funding and manpower levels that may not be available from the transferring claimant. Moreover, redundant capabilities that still remain within regions may reduce anticipated savings.

Finally, the acceleration of regionalization has hindered the application of lessons learned from the San Diego pilot project to other regions and has contributed to differences in regional structures that are not attributable to different mission requirements and customer bases.

## **2. Differences in Approach to Regionalization**

Examination of the three regions reveals many differences. Each region has a different organizational structure and, as a result, a different focus. The assignment of key roles in each organization was predicated in part on the capabilities of the incumbents, and their commitment to the regionalization process at the time of regionalization. This is illustrated by the very different composition of Regional Business Manager/Comptroller positions in the regions studied. Recall that the Southwest Region utilizes the Commanding Officer of FISC, San Diego as the Regional Business Manager (RBM) and a Supply Corps O-6 as the Comptroller. The Hawaii Region created an O-6 RBM billet, filled by a Civil Engineering Corps officer, supported by a civilian comptroller. The Northwest Region uses an O-5 Military RBM who is TDY from the FISC and created a senior civilian comptroller position, who does not report to the RBM. These differences have the potential to significantly affect the flow of resources.

The similarly non-uniform assignment of ACOSs, PMs, and Special Assistants to manage those resources will undoubtedly affect program execution as well. For example, SPAWAR Headquarters is located in the Southwest Region. SPAWAR receives some basic support from the region, including security and fire protection, but does not fully participate in the region. As a result, the Southwest Region Program Manager for Information Technology is the CO of NTCS, despite the fact that SPAWAR, the Navy IT manager resides in the same region.

Additionally, the periodic rotation of personnel from positions created around them will inevitably lead to assignment of individuals to key positions who have different

skills, abilities, priorities, and attitudes toward regional support than do the incumbents. This has prompted the Southwest Regional Staff to propose a "Regional University" to train new Commanding Officers [Ref. 59].

The different mission and vision statements of the regions indicate differences in focus and emphasis. The common theme of each is that by using "best business practices" service will actually improve. The improved service will be provided in a more "cost effective" manner, allowing funding of other Navy priorities. Despite having the same major claimant, the three regions studied have approached regionalization differently. They provide different services, different levels of service, and have different decision making bodies. This does not mean that one is more or less efficient than the other. However, there are some reasons for concern. Interestingly, the primary means of savings in restructuring typically is achieved through manpower reduction, yet this is rarely addressed. The Southwest Region has requested a limited Reduction in Force (RIF) but has achieved most preliminary savings through attrition. The Hawaii region has stated that a RIF is the tool of absolute last resort, while the Northwest Region has publicly and repeatedly promised there will be no RIF [Refs 58, 48]. Relying totally on attrition caused by retirements, resignations, and relocation has often resulted in people being assigned to jobs for which they lack adequate skills [Ref. 34]. The cost associated with inefficiency and re-training these people is not considered in regional cost projections

### **3. Standardization of Service**

The lack of standardization among regions is illustrated by the announcement of their new titles and missions. In the OPNAVNOTE announcing the revised activity titles

and mission statements of the new Regional Commands, East Coast and West Coast regions did not even have similar mission statements. For Commander, Navy Region Southeast and Commander, Navy Region Mid-Atlantic, the mission is,

To perform military command of assigned Shore Activities; to coordinate the provision of shore activity support to the operating forces of the Navy, other naval activities and tenant commands; to sustain the provision of specified funding, personnel and facilities support to assigned shore activities; to assess and evaluate installation management functions, quality of products, services and readiness of assigned shore activities, and to perform such other functions and tasks as may be assigned by higher authority [Ref. 8].

For Commander, Navy Region Hawaii, Commander, Navy Region Southwest, and Commander, Navy Region Northwest, the mission is:

To provide consolidated base operations support as defined by the Core Business Model; to own and provide facility and land space management within its designated region and Navy concentration area; to exercise coordination and command of assigned shore organizations; to provide support to homeported and transient ships, submarines and aircraft as well as afloat and ashore tenants, military and dependent personnel, and to perform such other functions and tasks as may be assigned by higher authority" [Ref. 8]

The prescription of the Core Business Model as the basis for support leaves the standards of support open to interpretation. This model was developed to standardize accounting procedures for BOS support. Notably, it does not address specific levels or standards of service.

Absence of standardization of services was a concern expressed by personnel of CINCPACFLT, all the Regional Staffs, the three Type Commanders, and customers of the region. Without a clear definition of the nature of the services provided and the minimum

level of acceptable service, customers feel at the mercy of the ACOS or Program Manager providing the service. A regional ACOS describes it as, "Personality-driven decision making" [Ref. 36]. A member of the COMNAVREG Hawaii staff, a vocal supporter of regionalization and best business practices, expressed the opinion that, for regionalization to work, "...we need a common level of support" [Ref. 32]. A CINCPACFLT senior official, in summarizing the standardization concerns, said, "Everybody does it differently. You will never get any savings that way. We need to define what's BOS and what's not BOS" [Ref. 27].

Proponents of regionalization point out that regionalizing services will lead to standardization. This can be both good and bad. An anecdotal, but widely held, opinion is that the "three Navies" (i.e. Aviation, Surface, and Submarine) place different priorities on services, resulting in different levels of service. Aviation bachelor quarters are said to be of higher quality, followed by submarine community facilities, then by surface community facilities. The different emphasis was due to differences in missions and perspectives in the three communities. Regional management of this service will provide all sailors with the same level of service regardless of warfare community. This may frustrate some Navy communities, especially if it is provided at the lowest-cost level. The appropriate level of service has yet to be defined.

Both supporters and detractors of regionalization express the critical need for standardization of services and functions. Personnel familiar with regionalization history attribute much of the lack of standardization to an absence of clear leadership and vision for regional policies.



#### 4. Leadership/Vision

The regionalization concept was championed by the N-4 Staff at OPNAV, and the primary implementers have been members of logistics and support communities. This is logical, because reducing the support infrastructure is largely a support function. However, because of this narrow focus, communities outside the shore infrastructure arena have a view of regionalization that ranges from complete ignorance, to distrust, to open hostility. A senior official in the Southwest Region expressed that, "Real, clear leadership is lacking, and that is holding us back. Organizational structure should follow strategy: standardize, reduce cost, improve performance" [Ref. 37]. Another official in the region expressed a belief that Navy leadership outside the OPNAV Logistics organization, saying, "The OPNAV codes are not onboard" [Ref. 36]. An official in the Northwest Region expressed a similar sentiment. "We were given direction to regionalize with no idea what it really is. It was not thoroughly staffed at the OPNAV level. A number of the other Claimants just 'blew it off'" [Ref. 33]. Another PACNORWEST staff member opined, "OPNAV doesn't know what happened. There was a lack of coordination" [Ref. 34].

The CNO's order to regionalize was stated in general terms, and the order to "...realign shore infrastructure *where it makes sense*" was interpreted by many claimants as tacit approval not to participate. The non-participation of several major claimants in regionalization, including SPAWAR, CNET, and NAVFAC, has reduced projected savings in the regions.

Subsequent regionalization guidance was often provided after regionalization actions were already underway or complete, and acceleration of regionalization contributed to this effect. Many obstacles to regionalization resulted, which Regional Commanders must now resolve.

### **5. Obstacles to Regionalization**

All of the regions studied, and their major claimant, are attempting to resolve issues resulting from Installation Claimant Consolidation (ICC). The CINCPACFLT Comptroller staff estimates the annual BOS shortfall resulting from insufficient ICC budget-base transfers at over \$45 million beginning in FY 1999[Ref. 25]. Personnel from each region have expressed dissatisfaction with the ICC budget-base transfers that set the baseline for regional budgets, and point out that claimants who did not transfer adequate funds are now demanding full service. The claimants, in their defense, point out that they experienced budget cuts themselves and lacked adequate support funds to transfer. This has caused friction between regions and their customers. One Regional Commander, believing a TYCOM had "short-changed" the region, threatened to RIF all civilian employees performing a specific support function for operational units of the offending command. CINCPACFLT was forced to intervene [Refs. 30, 26]. In another region, a tenant command with a non-CINCPACFLT major claimant was informed it would be treated as a reimbursable customer and would be required to provide funding for each weapons support transaction. The comptroller of the organization expended considerable effort in proving that, as a fleet customer, funding for that item of support was already included in the region's budget and had been for several years [Ref. 38]. The implications

for service were clearly expressed by a CINCPACFLT Budget Officer: “We will provide the service we have been funded for” [Ref. 25].

Another obstacle, related to the alleged lack of coordination at the OPNAV level, is that Navy regulations and structures do not allow the flexibility to affect changes necessary for the effective application of regionalization principles. Program Managers in both the Southwest and Hawaii Regions expressed frustration resulting from personnel management practices and Human Resources Office (HRO) rules. They consider the rules unwieldy and inflexible and therefore impediments to the movement or dismissal of personnel required in such a sweeping change [Refs. 32, 36].

Many support functions are provided by activities funded by Navy Working Capital Funds. Only O&M,N funds were negotiated in the ICC transfer, so duplication of infrastructure exists within all the regions where NWCF activities provide support. A Navy Region Hawaii RBM staff member stated, “We still don’t own the shipyard. There is a large impact in not having them play”[Ref. 32].

Because of the narrow focus on regionalization implementation at the OPNAV level, and the lack of standardized structures and services, many key support issues remain unresolved in the region. These issues have reduced or eliminated savings that regionalization could provide. This is illustrated by the ongoing debate between Navy Facilities Engineering Command and Navy Supply Systems Command activities in one region. Both NAVFACENGCOM and NAVSUP have procurement and contracting as core competencies. Although the nature of the goods and services procured by each command is different, the fact remains that each maintains a large pool of contracting

personnel with extensive training in the same Federal Acquisition Regulations. Because both commands desire to perform the procurement mission, redundant capabilities remain within the region [Ref. 31].

A similar situation exists in the same region over the retail supply function. Although the FISC has been appointed as the retail supply Program Manager, the Public Works Center elected not to transfer its retail supply inventory or personnel to the FISC for management. This resulted in redundant inventory items and manpower [Ref. 31].

Another illustrative example occurred when a command transferred the retail supply function to the FISC but fought against the transfer of the billets previously dedicated to the function, arguing that they had other, additional duties. They ultimately transferred one military billet to the FISC, but not before removing the incumbent to a different billet vacant at the time. This command now employs nine people instead of ten, but has transferred more than half the work those people previously performed to the region [Ref. 31]. According to CINCPACFLT personnel, these difficulties have been common. The transferring claimants have "...played a shell game with the bodies. They don't add up"[Ref. 25]. Many of these obstacles are a direct result of Navy culture.

## **C. NAVY CULTURE**

### **1. Navy Paradigms**

A universal sentiment among all people interviewed for this study is that the existence of "stove-pipe," or vertically integrated, support structures, a "rice-bowl" mentality, and "flag-pole" command protectionism is limiting regional effectiveness. According to a Program Manager in the Hawaii Region, "The human side [of

regionalization] was totally overlooked. People are not playing, they're pulling out, hiding bodies, and there's no commitment in the region. The lack of buy-in from COs led to the reduced savings" [Ref. 32]. A senior consultant for KPMG, summarizing this phenomenon, said, "...a key part of regionalization is being 'one Navy,' and you guys just aren't there yet. You still have an Aviation Navy, a Surface Navy, a Submarine Navy, and all the other support claimants fighting to defend their rice bowls" [Ref. 24].

The research for this work included interviews with several dozen regional and CINCPACFLT personnel attempting to achieve savings through regionalization. The existence of "stove-pipe" organizations, "rice-bowl" mentalities, and "flag-pole" disagreements was universally cited as the biggest impediment to regional implementation and achieving savings. Typical comments included: "The pots of money are still stove-piped" [Ref. 28]. "There are too many stovepipes"[Ref. 32]. "The COs are a big problem" [Ref. 26]. "We won't get anywhere until we cut down some flagpoles"[Ref. 31]. These tendencies are deeply rooted in the culture of command at sea.

Warfare Communities have histories, traditions, and cultures that help provide the esprit de corps essential to warfighting. The Commanding Officer at sea has the privilege and burden of virtually unprecedented authority and responsibility. The CO is responsible for every aspect of life on a ship and the actions of every member of the crew. A ship must be totally self-sufficient while at sea, and all operational, maintenance, health, discipline, and recreational concerns are under the purview of the CO. The CO is rewarded and promoted based on how well he or she balances these myriad and often conflicting requirements.

Commanding Officers of large Navy bases typically arrive at these postings near the end of a career that has been focused primarily on command at sea. Base Commanding Officers are awarded these commands based on the results of a Major Command Screening Selection board. The position is accepted with the expectation that the Officer will receive the authority, responsibility, control of resources, and freedom of action to pursue priorities in providing what the CO considers to be the level of support that is in the "best interests" of the Navy. Commanding Officers are evaluated and promoted based on their performance compared to Commanding Officers of other bases in the same claimancy. Essentially, until recently, Navy bases operated like Navy ships.

Under the regionalization concept, the role of the CO is significantly changed, and his or her power and prestige are diminished. They no longer control the flow of resources, level of services, or the workforce for their base. Instead, they are advocates for their tenants and ACOSs or PMs for a regional function. The focus of command has shifted from the prestige and personal power associated with controlling resources and personnel to the more efficient provision of specific services. Instead of direct competition, fundamental cooperation is required. Roles, expectations, and incentives tend not to be well defined for installation and base Commanding Officers.

## **2. New Roles and Expectations**

Clearly there is a lack of congruency between the traditional role of a Navy Commanding Officer and the requirements of a Regional CO/ACOS/PM who must cooperatively provide services to all regional bases while protecting the interests of his own. Further, while management of a stand-alone, "stove-piped" activity required a

generalist whose primary strength was in coordinating the activities of the experts assigned to his command, the CO/ACOS/PM must now have specific knowledge of some base support function. This lack of congruency has contributed to the implementation obstacles discussed previously and is as yet unresolved. Navy Region Hawaii has defined a model of the differing roles (Figure 4-1), but has not resolved the problem of conflicting interests or differing skills [Ref. 22].


Regional personnel also expressed concern over the frequent rotation of military personnel that is inherent in the military career structure. CO/PMs are replaced every two to three years, usually by operational personnel with little experience in installation management and varying attitudes towards regionalization. According to a senior official in the Southwest Region, "Building a team is critical. Success is based on relationships, cross-claimancy cooperation, trust and rapport. The frequent rotation of leaders is a problem"[Ref. 37].

### **3. Incentives**

There are few organizational incentives to be efficient in the current defense structure. Because O&M,N is an annual appropriation, service budgets are set at the start of the fiscal year and must be fully executed by the end of the year. Commands with surplus funds remaining at the end of the fiscal year are viewed unfavorably. They are not free to use the funds in other ways the following year. The only real incentive to operate more efficiently is the need to limit the impact of a budget cut.

The Navy personal incentive structure is based primarily on promotion to higher rank and entrustment with ever-greater levels of responsibility. These rewards are earned

by competing against personnel of equal rank in similar positions. Because of this, Navy personnel have ingrained in them a strong tendency to improve the performance and quality of life of their current command at the expense of others. To voluntarily share financial resources with a competing function is unthinkable for most Navy leaders. This incentive system is at odds with regional goals of cooperation and standardization.

<b>CO/PM Responsibilities</b>	
	
<b>CO</b>	<b>PM</b>
<ul style="list-style-type: none"> <li>• Officer in Command of Command Mission</li> <li>• CNB PH Representative</li> <li>• Advocate for personnel, tenants, customers</li> <li>• Regional SEB Member as assigned</li> <li>• Coordinates with PMs</li> <li>• Assesses quality of BOS services received</li> <li>• NJP-retain for assigned personnel</li> <li>• Supported by functional store-fronts on the installation</li> <li>• Exercises military jurisdiction over military and civilian assigned to UIC</li> <li>• Provides fitreps/appraisal input to PM on ADDU store-front personnel as assigned by SEB</li> <li>• Integrates command mission/tenant requirements with PMs on levels of service</li> </ul>	<ul style="list-style-type: none"> <li>• Responsible for mgt, control and execution of program mission, task</li> <li>• Provide CO functional support and service</li> <li>• Exercises control over resources</li> <li>• Develops Regional Budget reqs</li> <li>• Ensures high service level standards</li> <li>• Responsible for safety, welfare and professional development of personnel</li> <li>• Functions similar to a tenant in a host/tenant relationship</li> <li>• Manages the installation operations target (OPTAR)</li> <li>• "CHAMPION" the functional teams cause</li> </ul>

**Figure 4- 1, Navy Region Hawaii CO/PM Roles [Ref. 22]**

A senior official in the Southwest region stated, " The ACOS must be accountable; it must be in his best interest to standardize, reduce cost, and improve performance. It's



got to be real clear” [Ref. 37]. The lack of clarity of roles and conflicting incentives has given rise to concern on the part of customers of the regions.

#### **D. CUSTOMER CONCERNS**

Operational customers of the regions and claimants who have declined to participate in regionalization have expressed concern over the regionalization process. These concerns over specific aspects of regionalization must be addressed by any criteria developed to evaluate the process. Concerns focused primarily on standards of service, funding, and priorities.

##### **1. Service**

Personnel representing Commander, Naval Air Force, Pacific Fleet (COMNAVAIRPAC), Commander, Naval Surface Force, Pacific Fleet (COMNAVSURFPAC), and Commander, Submarine Force, Pacific Fleet (COMNAVSUBPAC) all expressed dissatisfaction with the lack of standardization of services. Operational units of all three Type Commanders are homeported in each of the regions studied. They contend that they have not been told what constitutes BOS support, and that their units receive different levels of service depending on the region providing support [Refs. 28, 29, 30]. It is they, and their personnel, who bear the cost in loss of service or service quality resulting from regionalization.

Absence of defined standards, combined with the funding shortfall resulting from ICC, has led to difficulty in negotiating Memoranda of Understanding and/or Host-Tenant Agreements between regions and tenants. Because no formal agreement is in place in many instances, individual tenants and customers feel they have little recourse in resolving

disagreements regarding support. A non-CINCPACFLT tenant said, "What is common support? It needs to be defined. Instead of dealing with one CO, we now have to negotiate with eighteen ACOSs, and no ISAs (sic) are in place. An MOA should clearly state what is provided"[Ref. 38]. Poor definition of services covered in regionalization often results in units seeking aid from their TYCOM or, in the case of non-CINCPACFLT commands, the Major Claimant. Thus, requests for routine services are elevated to the Flag Officer level for resolution.

COMSUBPAC personnel questioned the alleged benefit of having one standard of bachelor quarters support for all sailors. While acknowledging that the former SUBBASE Pearl Harbor BEQ was better maintained than the NAVSTA Pearl Harbor BEQ prior to regionalization, they maintain that the result of regional management of BQ functions was not to improve the standards at NAVSTA, but rather to allow them to deteriorate at SUBBASE. Specifically, they state, "Maintenance is not being done. The building is falling apart. There is no baseline" [Ref. 30].

In those cases where support is no longer provided from a storefront location at the original site, the centralized service has been removed from customers. While this may make economic sense, customers point out that their costs have not been factored into the decision. The consolidation of PSD Pearl Harbor, for example, has resulted in sailors traveling a much greater distance to receive personnel services. Operational units either lose the productive time required for those sailors to walk a greater distance, in some cases hours, or must provide vehicle transportation at additional cost to ship OPTAR [Ref. 30]. The intangible effect of inconvenience also is not included.

Some services have been cut or reduced simply because of budget cuts independent of regionalization. Because funding was carved out of the Navy budget in advance of any real savings from regionalization, some service levels have been reduced. This is not being effectively communicated to customers, who feel that regions are not supporting them as their predecessor bases once did. A COMNAVAIRPAC official stated, "We are losing personnel while adding functions, causing people to work overtime. Morale and quality of life suffer" [Ref. 28]. A COMSUBPAC official expressed a similar sentiment, "The customers are not being supported the way they were before regionalization. They've cut overtime on tugs, telephone support, and SUBPAC is funding the difference. We are doing more with less – bottom line" [Ref. 30]. When regions refuse to provide the level of support that TYCOMS consider necessary, TYCOMS often resort to the use of mission funds for support functions [Refs. 26, 28, 30].

## **2. Funding**

Tenants feel that they are being punished by reduced levels of support based on actual or perceived shortfalls in budget-base funding transfers. A CINCPACFLT budget officer made a statement to this effect [Ref. 25]. One mission funded tenant, for example, said, "We didn't give a budget-base transfer, because we were already in the NAS North Island budget base. Now we are being told, 'you didn't give us any money, so why should we support you?' We are a fleet customer, but they are trying to treat us like a reimbursable customer and recover costs" [Ref. 38].

The difficulty in evaluating regionalization is compounded by the willingness of TYCOMS and other claimants to fund support functions with operating budgets, as discussed in the previous section. This understates BOS costs, masks the shortfalls in BOS budgets, and overstates savings resulting from regionalization [Refs. 26, 28, 30].

### **3. Priorities**

TYCOMs and tenants also expressed concern over the ability of Regional Commands to prioritize elements of support in the same way that TYCOMs would rank them. In the absence of standard levels of service, BOS funds are divided among programs and bases within regions by the Regional Business staff and/or Comptroller according to inputs from COs, PMs, and ACOSs. The priorities of the customers may not, in some cases, be reflected in funding levels. The SUBBASE Pearl Harbor BEQ is one example. Another is the funding of the OLYMPIC VENTURE, an ocean-going personnel transfer craft, that PACNORWEST elected not to fund as a BOS function, despite the high priority placed on this service by the TYCOM [Ref. 30]. Another example is the refusal of the Southwest Region to fund Ombudsman support for deployable aircraft squadrons homeported on their bases [Ref. 28].

Another concern expressed by COMNAVAIRPAC personnel results from the flow of Flying Hour Program (FHP) funds (Figure 3-2). Labor is funded with BOS, including FHP accounting personnel. The region cannot convert FHP funding for any other use and derives no direct benefit from administering the funds, which are "fenced" by AIRPAC.

AIRPAC personnel fear that the level of service in support of FHP functions will suffer [Ref. 28].

Of course, CINCPACFLT is the major claimant for the three TYCOMs and regions in this case. Because the region and the TYCOMs have a common superior, one level above them in the chain of command, these concerns could be addressed. However, this has not been the case for all customers. A Comptroller expressed the concern of tenants from other claimancies in the southwest region. "Non-CINCPACFLT users get the shaft. It's human nature" [Ref. 38].

## **E. BEST BUSINESS PRACTICES**

### **1. Business Practices Applied**

Each region examined claimed the application of "best business practices" as the key factor enabling savings through regionalization. By applying lessons from industry they hope to achieve efficiencies, reducing costs while improving services. The common problem in each region, however, is that best business practices have not been defined, published, codified, or followed. Many personnel in the regions and CINCPACFLT are well versed on the current best practice literature. These personnel expressed frustration at the lack of application of these techniques despite claims to the contrary. Specific complaints included a failure to invest in enabling technology [Ref. 33], no benchmarking or cooperative efforts with civilian business leaders [Ref. 32], and no published standards [Refs. 28, 30, 32].

## 2. Measures of Effectiveness

Related to non-standardized services and structures is the absence of measures of effectiveness. The SBCA addressed changes from a current state to a proposed regional state but made no attempt to define what a desired state should be. Because there was no baseline, regions are not sure how to judge the effects of their efforts [Ref. 32]. Further, the SBCAs, once approved and implemented, were set aside. To date real savings have not matched projections [Ref. 22].

Efforts were made to utilize Activity Based Costing (ABC) and Activity Based Management (ABM), with the assistance of KPMG, using ABC computer software [Ref. 24]. Because there is no standard definition of services or defined standards of services, and because STARS/FL does not allow ABC, these efforts have so far been unproductive. A KPMG employee stated, "You can't just try to 'improve.' You've got to set benchmarks." In the words of a senior member of the Hawaii Regional Staff, "We have no benchmarks, so we have no way of holding people's feet to the fire. [The Navy] is lacking a willingness to make decisions and set goals. We need a good core business model, ABC, and a set of benchmarks, industry standards. We need to drive management to meet the benchmarks. We need *some* standard"[Ref. 32].

The key to evaluating regionalization efforts, and to successfully implementing regionalization, is the application of best business practices and measures of effectiveness. Without these elements, regionalization will prove to be just another shuffling of organizational charts.

## **F. CHAPTER SUMMARY**

The preceding discussion is not intended to be a comprehensive evaluation of regionalization. Rather, the issues articulated here are being raised to illustrate the challenges that regions, and their customers, are attempting to resolve as part of the regionalization process. It would be unrealistic to expect such a sweeping change to occur in the absence of evolutionary "growing pains." Also, many of the issues are admittedly unrelated to regionalization but are, instead, the result of reduced Navy funding levels. However, it would be imprudent to dismiss these concerns and expectations when developing criteria to evaluate regionalization efforts. Clearly the four guiding principles established in the CNO order to regionalize have not yet been realized.

The concerns and expectations of affected personnel and the prevailing culture of the organizations studied provide the background against which "best business" based evaluative criteria are defined in the next chapter.

## **V. EVALUATION CRITERIA**

### **A. CHAPTER INTRODUCTION**

Downsize excess workforce. Cut unneeded infrastructure. Cut headquarters bureaucracy, adopt the best business practices in the industry, go paperless wherever possible, and shed non-core business functions that someone else can do more cheaply for you. And that, simply put, is what we are doing in the Department of Defense today[Ref. 9].

Secretary of Defense William Cohen, 1998

What we set out to do can be divided into two parts: the first essentially a series of management reforms of the kind to be found in any well-run organization, an effort which is in large part covered by the formal five-year Cost Reduction Program we set up in July 1962. The common characteristic of such reforms is that they have very little to do with military effectiveness, one way or the other. They merely save money by introducing more efficient methods of doing things[Ref. 44].

Secretary of Defense Robert McNamara, 1968

The Department of Defense has a four-decade history of attempting to gain efficiency and reduce costs by adopting practices that have succeeded in industry, and regionalization is one of the latest efforts toward that end. Few in the Navy disagree with the stated intent of regionalization. Greater efficiency, reduced cost, and enhanced service, with reduced infrastructure, would clearly benefit fleet units, members of the armed forces, and taxpayers. However, if regionalization is not to be another management fad, going the way of Total Quality Leadership, Management by Objectives, Zero-Based Budgeting, and Management by Walking Around, there must be clear measurement



criteria that will either show demonstrable savings or improvement, or identify the need for corrective action.

Most Navy personnel interviewed for this study were skeptical, if not incredulous, regarding the need for criteria to evaluate regionalization. The consensus was that if regionalization saves money, it is a success. If it doesn't, it is a failure. However, demonstrating "savings" is not enough. Unlike business, the Navy receives its revenue from Congress. A cut of \$8 billion *will* result in an \$8 billion reduction in expenditures. This *reduction in expenditures* must not be confused with *savings*. The key to evaluating regionalization lies in the degree to which the Navy is able to absorb budget cuts while preserving military readiness and levels of service.

Adoption of best business practices is the fundamental element in implementation of regionalization. It is mentioned in the CNO order to regionalize, CINCPACFLT guidance, and the mission statements of the regions themselves. The key to evaluating regionalization lies not in whether Navy activities spend less money than before regionalization; they will. The key to evaluation is the degree to which regions adopt best business practices, offsetting the deleterious effects of budget cuts. This chapter discusses current best business practices in industry and government literature as they relate to regionalization.

In 1997, L.R. Jones and Fred Thompson developed a framework for classifying and integrating often used concepts in current business literature [Ref. 39]. Their five categories, summarized in Figure 5-1, provide a framework from which to view business

## THE FIVE R'S OF THE NEW PUBLIC MANAGEMENT

### 1. Restructuring:

- Identify the organization's core competencies.
- Cut everything out of the organization that does not add value to its services – especially rules that inhibit performance.
- Contract everything out of the organization that is not a core competency.
- Tools: TQM, value-chain analysis, activity based costing (ABC)

### 2. Reengineering:

- Start over rather than trying to “fix” existing processes with “band aid” solutions.
- Put the computer and other information technologies at the center of the operation.
- Build from the ground up rather than from the top down.
- Base organizational design on processes rather than functions and positions on the organizational chart.
- Focus on improving service quality, reduced cycle time, and costs.
- Tools: modern databases, expert systems, and information technologies; teaming, benchmarking, cycle-time burdening.

### 3. Reinvention:

- Develop a planning process.
- Establish a service/market strategy.
- Move the organization toward new service delivery modes and markets.
- Tools: strategic planning, market research, target costing, networks and alliances.

### 4. Realignment:

- Align the organization's administrative and responsibility structures with its market and service delivery strategy.
- Align the organization's control/reward structure with its administrative and responsibility structures
- Put mission centers first; functionally specialized activities, such as personnel or finance management, are core missions only for organizations that supply those services, such as temporary personnel agencies or financial institutions; if units do not perform core missions, they should be treated as support centers.
- Tools: Performance-Based Organizations, multi-divisional structures, lean production, responsibility budgeting and accounting, transfer prices, high-powered incentives.

### 5. Rethinking:

- Speed up the observation, orientation, decide, act cycle – both to improve performance and to learn faster.
- Empower front line workers to evaluate service performance and provide feedback on service delivery and strategy.
- Build a learning, adapting organization.
- Tools: decentralization, flexible controls, working capital, quick and dirty analysis, learning models.

**Figure 5-1, The Five R's Of The New Public Management [Ref. 39]**

initiatives in public organizations. The five R's encompass many of the best business practices reviewed in this research, and provide the foundation of the criteria.

## **B. EVALUATION CRITERIA**

### **Vision must come from the top.**

The general nature of the regionalization order and the lack of coherent direction for regional and operational personnel noted in Chapter IV are inconsistent with the innovative nature of best business practices. The vision for regionalization must be articulated both qualitatively and quantitatively, providing clear objectives, means of measuring progress, and continued encouragement for the process to maintain momentum [Ref. 20]. According to Hamel and Prahalad, "We don't believe that any company can get along without a well-articulated point of view about tomorrow's opportunities and challenges" [Ref. 17].

An effective vision should include mission, core competency, basis of differentiation, and the heart of the philosophy [Ref. 57]. However, a vision statement alone is just well crafted rhetoric. Leadership at the OPNAV level must embrace the vision. Wayne Bragg, Controller for Sikorsky Aircraft, observes, "...only an overriding vision, a common purpose and management support for empowered, boundaryless teams can overcome the management infrastructure so deeply embedded in organizational silos. This vision should clarify direction, outline the path to success and call for collaboration..." [Ref. 43]. Specific goals must be set in strategic terms. "Do better" is not adequate direction. Thus far in the process, Claimants and COs resisting

regionalization represent a major obstacle to success. The OPNAV DCNOs must articulating regionalization vision to achieve potential benefits.

**Leadership must be committed to the process.**

President Lyndon B. Johnson once remarked, "The best way to kill a new idea is to put it in an old-line agency" [Ref. 2]. A lack of enthusiasm on the part of some Navy claimants has been identified as an obstacle to implementation of regionalization.

Hammer and Stanton state, "Passionate, committed, engaged executive leadership is an absolute prerequisite for reengineering" [Ref. 20]. Committed leadership is the key to fundamental organizational change, and while the commitment of Regional Commanders and CINCPACFLT is crucial to regionalization, it is not enough. Navy leadership must have the willingness, and the power, to induce all claimants to participate in the process, to attempt to change other Navy bureaucracies that inhibit infrastructure reduction, and to forestall efforts to reap short-term benefits at the expense of long-run efficiency. The regionalization leader should be, "...a senior executive with enough clout to cause an organization to turn itself inside out and upside down and to persuade people to accept the radical disruptions..."[Ref. 19]. Not only must leadership be committed to the process, but they must continuously demonstrate that commitment.

**Customers must be identified.**

A huge volume of best practice literature has been published in the 1990s. It is clear that the large, bureaucratic organizational structures developed in the nineteenth and early twentieth centuries in many instances are no longer adequate to permit adaptation in

today's rapidly changing environment. The literature has a common theme: methods are being developed to provide better value to customers, faster, and at lower costs. Whether the goal is increased profitability or market share for a corporation, or increased capabilities at the same or reduced cost for a military organization, the customer must be the focus for any of these initiatives to be effective.

Customer identification is a difficult task in mission-driven organizations [Ref. 20]. Nevertheless, to apply best business practices, operating core customers must be separated from the service activities that support them. Regions cannot behave as an end unto themselves. Instead, they must act as a means unto an end; i.e., to the support of their customers.

Gary Hamel and C.K. Prahalad describe the goal of reengineering as, "...to root out needless work and get every process in the company pointed in the direction of customer satisfaction, reduced cycle time, and total quality"[Ref. 17]. Jones and Thompson define restructuring as, "...cutting everything from the organization that does not contribute value to the service or product delivered to customers"[Ref. 39]. For regionalization to succeed, regions must identify their customers and then strive to meet their expectations while reducing costs.

The concerns expressed in Chapter IV indicate that regions have not yet begun to view tenants and operational commands as customers. The view of customers as a drain on regional resources must be abandoned. For regionalization to succeed, provision of service to the customer must be the central concern of the regional staff.

**Customer needs must have top priority.**

After identifying the customer and the service provider, regions must meet the priorities and needs of their customer base. Each regional staff has developed some customer feedback mechanism, but the concerns voiced by regional customers noted in Chapter IV indicate a need for improvement. Refusal to fund Squadron Ombudsman expenses, for example, had a very small impact on the regional budget. However, the service was deemed a critical quality of life issue by the TYCOM.

In Intelligent Enterprise, James Brian Quinn explains the need to consider customer desires by relaying the following from Mr. Edward Hanway, President of CIGNA Worldwide:

In developing our quality metrics, we undertook a significant number of customer and broker interviews, some of which told us things we didn't know before – like people don't really care how fast we settle a claim, as long as there is somebody on the other end of the phone when they call up who can tell them exactly where their claim is in the process. That was much more important to them than how fast they got the check. Heretofore, we would have always said, "If we can improve from two weeks to four days, we will have done a great job. Unfortunately, the customer really didn't value that as highly as we thought they did [Ref. 57].

In public organizations the customer seldom pays for services. Revenues are derived from annual appropriations and often are not related to the quality of service provided. Customer demand for service is virtually unlimited, while the ability to supply services is limited by parties outside the region. By knowing customer preferences, regions will be better able to consider priorities when imposing budget cuts and limiting negative impact on customers.

By developing customer performance metrics up-front regions can avoid the pitfall of finding the most efficient, fastest, cost-effective way of doing the wrong things. They must not neglect or eliminate services that their customers deem critical. These metrics should be used to define and maintain core competencies, and to capture the non-monetary costs associated with increased distance from services, and changing service standards.

**Core competencies must be defined.**

A core competence is a set of skills and technology that enables organizations to provide value to their customers [Ref. 57]. Defining core competencies answers the questions, “What business are we really in? What business should we be in?”

Definition of core competencies of major claimants is central to the success of regionalization. Recall in Chapter IV the example of the NAVFAC and NAVSUP activities maintaining duplicate contracting capabilities because both consider contracting to be an organizational core competency. SPAWAR, NAVSEA, and NAVAIR also consider contracting as a core competency. A first step in the infrastructure reduction is the identification of all of these myriad functions that Navy commands consider central to achieving their mission.

At the macro level, functions are examined to determine those that provide value to Navy customers and those that could be better provided by other organizations. Examples of the types of questions that should be asked are: “Is the Navy really in the nuclear reactor business? Is submarine reactor repair something we do better than anyone else?” Here, the answer seems to be clearly yes. “Is the Navy in the family health care

business? Do we provide dependent health care better and more cost effectively than anyone else?" The answers here are less clear.

**Non-core competencies should be outsourced. Core competencies should not be outsourced.**

For regions to reach "most efficient organization," claimant competencies, once identified, must be combined across the region. In some cases duplicate competencies may remain. For example, contracting for acquisition of technology intensive space systems by SPAWAR is a vastly different process than contracting for cleaning supplies by a FISC. However, contracting for purchase of sink faucets by a PWC and contracting for sink faucets by a FISC are identical competencies and should be combined. For claimants to achieve this level of cooperation, the vision, leadership, and stovepipe criteria developed here must be satisfied.

For all the competencies identified, value chain analysis should be performed. This process divides activities, or processes, into primary and support activities and determines which provide value to the customer and which do not [Ref. 15]. Non-value adding and non-core activities should then be outsourced to commercial enterprises that do perform them as core activities. In The Age of Unreason, Charles Handy notes: "Organizations have realized that, while it may be convenient to have everyone around all the time, having all of your workforce's time at your command is an extravagant way of marshalling the necessary resources. It is cheaper to keep them outside the organization, employed by themselves or by specialist contractors, and to buy their services when you need them" [Ref. 21].



As stated in Chapter II, competitive sourcing initiatives are separate from regionalization and will likely be mandated by DoD regardless of regionalization initiatives [Ref. 1]. However, to ensure that appropriate activities are outsourced, value chain analysis is required. By consolidating competencies across regional lines prior to A-76 outsourcing studies, the number of studies required by individual activities will be limited, and contract scope and value can be more accurately defined. Also, by identifying core competencies and value-added activities, the Navy can avoid outsourcing critical activities that may compromise long term customer support [Ref. 15]. As Hammel and Prahalad point out, "...companies insensitive to the issue of core competence may unwittingly relinquish valuable skills..." [Ref. 15].

**Costs must be clearly identified.**

Activity-based costing (ABC) is a method of assigning direct and indirect costs to products, services, or outcomes. Indirect costs are usually associated with the term "overhead" in industry. In military organizations, much of the cost of "infrastructure" fits the definition of overhead. To reduce the costs of services, products, or processes it is necessary to understand the nature and distribution of costs for these functions.

Military organizations have traditionally treated most costs as "mission funded," meaning that costs were captured at the macro level, assigned on a command basis, and were rarely compared to develop standards or targets. A notable exception is the Navy Working Capital Fund that operates by "selling" services to mission funded customers. Because costs must be passed on to customers, they are assessed in a more scientific way.

Recently, U.S. Army activities have had success with experimental ABC efforts, and they are planning to implement ABC on a wider scale [Ref. 17].

If reducing costs is a primary goal of infrastructure reduction, then knowing what drives costs is the foundation for reducing them. ABC can help determine what products and services to provide, which customers to serve, lowest-cost product or process design, and high cost products or services [Ref. 40]. After BOS competencies are established, their costs must be ascertained to develop costing targets and product priorities.

**Costs should not be passed off to customers or hidden in other budgets.**

Many customers of regions expressed concern that they were being forced to fund traditional support functions using flying hour, support and equiptage, and other operational funds [Ref. 40]. CINCPACFLT personnel pointed out that it was all CINCPACFLT O&M,N money and didn't really matter "in the big picture" [Ref. 26].

There are two problems inherent in this tendency. First, the support structure is funded at the expense of the operating core. The most basic Navy core competencies of conducting training, exercises in support of warfighting capability, and sustained combat operations, are being decremented. Second, Navy revenue does not come from external customers. The budget process is incremental. As Aaron Wildavsky observes, "The largest determining factor of this year's budget is last year's" [Ref. 61]. Passing BOS costs to other budget lines may make regionalization seem more successful in the short run, but, by not capturing true costs and showing pain, future budgets will not be adjusted

to correct shortfalls. If anything, they may be further reduced in anticipation of additional "savings."

**Benchmarking should be performed to establish cost and service objectives.**

Benchmarking is defined by the International Benchmarking Clearinghouse as "...a systematic and continuous measurement process; a process of continuously comparing and measuring an organization's business process (products, services and practices) against business leaders anywhere in the world to gain information which help(s) the organization take actions to improve its performance"[Ref. 41]. Benchmarking provides process data, decision-making criteria, and a process for improvement [Ref. 41]. Benchmarking provides the link between government organizations and the best business practices they intend to adopt. Benchmarking is not a new or radical concept in the Department of the Navy. The Department of the Navy Benchmarking Handbook: A Systems View provides the methodology to be used when benchmarking [Ref. 41]. This is summarized in Figure 5-2. If using best business practices is an assumption in the regionalization concept, then benchmarking must be an integral element if regionalization is to succeed. After process costs are determined, benchmarks must be used to develop cost goals, service standards, and performance objectives for Program Managers.

**Manpower costs must be reduced.**

For regionalization to be effective, increases in customer service must be accompanied by significant reductions in manpower costs. Reductions must be dramatic.

The two-percent savings estimated in the Pearl Harbor Region does not justify the organizational upheaval associated with regionalization [Ref. 22]. When Ford Motor Company set out to restructure its North American accounts payable department, it hoped to achieve a twenty-percent workforce reduction through automation. Through the process of reengineering, it was ultimately able to achieve *a seventy five percent reduction* [Ref. 19]. Of course, three of four people employed in the accounts payable process were forced to seek other employment. One of the central goals, and arguably the principal goal, of regionalization is cost avoidance. To achieve it, there must be a demonstrable reduction in military and civilian end strength. Eliminating a few middle management positions through attrition is not adequate payoff for the massive effort of regionalization.

**Roles of CO/ACOS/PM must be clearly defined.**

The conflict between the existing bureaucratic structure and the flatter, more decentralized structure appropriate for regionalization is acutely manifested in the still ill defined roles of Commanding Officers, Assistant Chiefs of Staff, and Program Managers. The interests of the installation or command, of which a PM is the CO, may directly conflict with the interests of the customers of the process that he owns. As CO, an individual is expected to be the advocate for his or her base, activity, or command. As PM, he or she is responsible for distribution of resources to other bases, activities, and tenants. Much of the concern expressed in Chapter IV over personality based decision making and "shell games" with billets results from this conflict. The conflict itself arises from attempting to operate simultaneously in two very different organizational structures.

## The Department of the Navy Benchmarking Model as a System

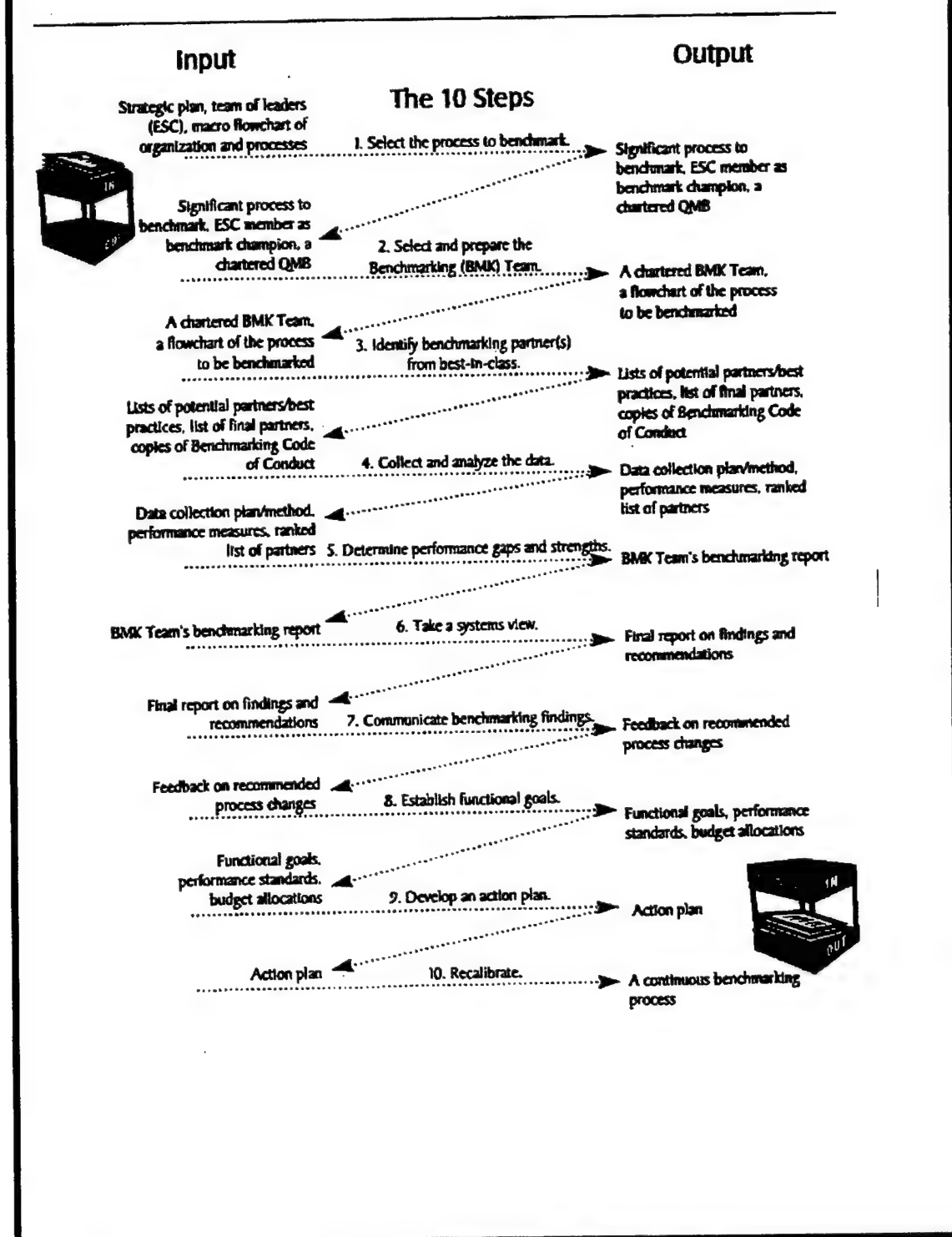


Figure 5-2, Department Of The Navy Benchmarking Model [Ref. 41]

This desire to evolve from the old organizational structure to the new in small incremental steps is understandable, especially given that the Navy has a 230-year history steeped in tradition and the culture of command at sea. However, the best business practices upon which the regionalization concept is based are not evolutionary changes best carried out in small cautious steps [Ref. 19]. To utilize these practices, process owners must understand their roles and responsibilities, measures of effectiveness, and incentives. These must be consistent with regionalization goals.

After roles are established, personnel must be trained to fill new roles. A senior officer who has spent a career as a line operator is a generalist. The skills of a generalist were required to coordinate the self-sufficient hierarchy of a base organized along traditional lines. In order to provide a specific service to a wide range of customers, COs/PMs must acquire specialized knowledge of the process they are responsible for.

**Regional positions must be based on functions, not personalities.**

A key element of reengineering is a focus on processes instead of tasks, jobs, people, or organizational charts [Ref. 19]. Hammer and Champy define a business process as "...a collection of activities that takes one or more kinds of input and creates an output that is of value to the customer" [Ref. 19]. This definition fits well with the regional Program Manager concept, because PMs can be empowered to control all of the inputs

and processes of their program to serve customers. In the reengineering literature they are “process owners” [Ref. 19].

Because regionalization was approached differently by different regions and activities, processes are not standardized. Processes in some regions were structured around the skills and beliefs of position incumbents at the time of regional studies [Ref. 31]. As these people leave their positions due to periodic military rotation, civilian transfers, and retirements, processes may need to be redefined. Processes must be refined and improved constantly, but they cannot be constantly reengineered. Personnel must be assigned to processes, not processes assigned to personnel.

**Stovepipes, Flagpoles, and Rice Bowls are constraints that must be overcome.**

Personnel involved in the implementation of regionalization cited stovepipes, flagpoles, and rice bowls as the greatest impediments to success. Stovepipes, flagpoles, and rice bowls are firmly embedded in Navy culture, but they are by no means unique to the military. Commands are managed as if they are entirely independent entities within their individual “stovepipes” and insulated from influence except from above and below. The “flagpole” represents the identity of the stand-alone command; the “rice bowl” a symbol of jealously guarded resources or self-interest. These features of a bureaucratic hierarchy, commonly referred to as “silos” in industry, result from the fragmentation of processes [Ref. 19]. People working in these silos focus their attention inward toward the organization and up the chain of command, but not outward to other organizations or the customers [Ref. 19].

A military organization may never function as a "boundaryless corporation," where they "...knock down the walls that separate us from each other on the inside and from our key constituencies on the outside"[Ref. 15]. Nevertheless, the success or failure of regionalization depends in large part on the ability to move Navy infrastructure in that direction. The trend of successful businesses toward flatter, decentralized organizations is the result of the failure of traditional bureaucratic structures to meet the demands of today's information rich, knowledge-based economy where customer demand is often widely dispersed [Ref. 39]. For regionalization to succeed, Navy support structures need to be flattened, shifting the focus from self-sufficient, insulated management of installations to management of programs or processes that serve the operating core.

For this to occur, base Commanding Officers and support claimants will have to surrender power, prestige, and control of resources in the interests of efficiency. To achieve such changes, incentives must change.

#### **Incentives must match strategy.**

An incentive structure based on personal power, prestige from control of resources, and promotion based on competition with individuals assigned to similar positions is not appropriate for regionalized activities. Performance evaluations, promotion, and rewards for CO's/ACOSs/PMs must instead be tied to the success or failure of the processes they manage. The establishment of benchmarks, standards of service, and performance metrics for processes provide the basis for new incentives. Process owners must be evaluated and promoted based on their ability to meet these



standards, and to satisfy customers. This shift in incentives and rewards will provide a primary tool in shaping the values and beliefs of regional personnel [Ref. 19].

**Rotation of personnel should be reduced during implementation.**

Because of routine military job rotation and retirement, key personnel have already departed each of the three regions studied. In some cases this has been advantageous, supplying personnel with fresh insights, new ideas, and a better understanding of business practices. In other cases, though, progress has been sacrificed as a result of these rotations. Jones and Thompson point out that stability of leadership and the workforce is important when implementing change [Ref. 39]. They note, "Training won't pay off for the organization if the employees that are trained leave (or even worse, if management moves them willy-nilly around the organization)" [Ref. 39]. A leader approaching retirement may likely approach the complex and demanding task of regionalization unenthusiastically [Ref. 19].

A conscious effort should be made to keep key personnel in place until regional structures are functioning in MEO, standards of service are in place, and outsourcing studies are complete. This is a similar approach to that used to provide stability for key personnel in DoD acquisition programs.

**Services should be standardized.**

Absence of standard services was a concern of regional personnel, TYCOMs, tenants, and CINCPAFLT. Because of differing missions and geography, some flexibility is necessary in defining services, but a majority of services can be standardized. Until

standard services are defined, different regions will allocate resources differently and operating units will be unable to anticipate requirements when moving from region to region. TYCOMs and Regions will be forced to withhold funds for contingencies resulting from the unexpected refusal of a service, or the unexpected demand for service. TYCOM personnel will waste time and energy negotiating with three sets of up to eighteen Program Managers for desired services. Tenants will be forced to address grievances formally, using their major claimant chain of command, elevating minor disagreements to flag level decision-makers.

After standard services are defined, then Memoranda of Agreement (MOA) can be implemented between regions and their customers, as directed by OPNAV regionalization implementation orders. MOAs will solve the majority of these problems, but services must be standardized before MOAs can be established.

**Rules should be changed to allow the application of best business practices.**

Many potential benefits of regionalization cannot be realized because regulations imposed by other activities within the DoD and the Navy are not compatible with best practices. One example is the requirement to have multiple Operating Budget (OB) holders in the Southwest Region because activities on the Oxnard Plain are serviced by a different DFAS OPLOC than those in San Diego County. Another example is the inflexibility to move or dismiss personnel caused by HRO requirements.

In cases where these and similar rules are the result of bureaucratic regulation and not federal law, Navy leadership must assist regions in amending, abolishing, or waiving

them. The flattened, cooperative structure should not be inhibited from achieving efficiency by the larger bureaucracy in which it resides.

**Initial investment is required to reap the long-term benefits of regionalization.**

The use of enabling technologies is a central feature of business reform [Ref. 19]. Ford's dramatic success in the accounts payable division would not have been possible without the "essential enabler" of information technology [Ref. 19]. The principle of enabling technology is that it must be used not just to make existing processes marginally more efficient, but exploited to allow new processes for performing core competencies.

The PACNORWEST region provides an example of the need for investment in enabling technology in regional implementation. The geographical makeup of the region discussed in Chapter III is not conducive to the "collegial" atmosphere the regional commander is attempting to sustain. It is difficult for the Board of Directors to meet face to face, and the time involved in traversing the Puget Sound by ferry or bridge requires a whole day be devoted by some of the principals. This limits organizational flexibility and responsiveness. By investing in teleconferencing facilities, the board could meet as often as necessary throughout the implementation process, with little prior planning, and less interruption of daily routines.

Investment is also required in education and training [Ref. 39]. As new processes emerge and new cultures and relationships evolve, leaders, staff members, and storefront personnel must be trained to operate the processes effectively, breaking the bureaucratic syndrome of "business as usual."

Current Navy budget levels do not support investment in infrastructure in support of regionalization. Budgets have already been decremented in anticipation of savings. For regionalization to succeed, this trend must be reversed and investments must be made as processes are defined and requirements identified. Failing to invest to improve future service quality is "...penny wise and dollar foolish" [Ref. 39].

**Lessons from regional efforts should be compiled, shared, and applied.**

Regionalization of the San Diego area was intended as a pilot program. A greater investment of time and resources was possible there than in other regions. As a result, the region has already solved many problems and addressed many concerns still faced in the other two regions. It was frustrating to discover during the course of this research that the other regions struggle with similar problems without the benefit of San Diego's experience, essentially "reinventing the wheel."

Regional Commanders' Conferences have been conducted throughout regionalization implementation, and they have, as noted in Chapter III, been effective in "cross-pollinating" regions. Informal alliances are being developed between personnel of different regions as well, but this is not an adequate means of promoting organizational learning [Ref. 39]. Shared databases must be developed that include process descriptions, activity based costs, benchmarks, levels of service, successes, and failures. This level of cooperation is necessary to accelerate learning and promote standardization across regions.

**There can be no end state. Regions must continually strive for improvement in processes, products, and customer support.**

Quinn notes that over half of the companies listed on *Fortune's Top 100* list do not remain there a decade later [Ref. 57]. It is not enough to break apart shore infrastructures, start providing services along regional lines, and move on to other challenges. Regions should continuously seek innovation and share information across functions, claimants, and regions. They must strive to become "learning, adapting organizations" Ref. 39].

The Hawaii Region provides an excellent example of this criterion. Not satisfied with savings through manpower reduction, they are exploring the previously unconsidered possibility of consolidation of not only functions, but locations. The savings realized from tearing down buildings and avoiding maintenance and utility costs may rival those achieved by manpower reductions [Ref. 32].

## **C. CHAPTER SUMMARY**

The criteria developed in this chapter provide specific means to judge the effectiveness of regionalization. Meeting these criteria will admittedly entail a great deal of effort and commitment. If applying world-class business practices to military organizations was easy, Robert McNamara would have succeeded in his effort of 1962. However, as the Navy is forced into ever-fiercer competition with entitlement and other programs for Congressional funding and with the private sector for skilled labor, we must adopt more efficient means of operating if we are to reduce the cost for maintaining

military readiness. Claimant consolidation, regionalization, and commercial outsourcing, if done properly, may provide part of the means to meet this challenge.



## **VI. CONCLUSIONS AND RECOMMENDATIONS**

### **A. CONCLUSIONS**

The budgetary constraints imposed on the Department of Defense today, combined with increasing competition for labor from the private sector, indicate the need for change. The Navy can no longer continue to, "do what we've always done" and require people to do, "more with less." As Hamal and Prahalad note, "We've reached the limits of incrementalism. Squeezing another penny out of costs, getting a product to market a few weeks earlier, responding to customer inquiries a little bit faster, ratcheting quality up one more notch, capturing another point of market share, tweaking the organizational one additional time – these are the obsessions of managers today. But pursuing incremental advantage while rivals are fundamentally reinventing the industrial landscape is akin to fiddling while Rome burns" [Ref. 17].

Navy support budgets will be reduced by \$8 billion over the next five years through the POM process. Any portion of this amount not reduced from support budgets must be taken largely from modernization accounts. There is only a slight possibility of reprieve from this budget cut. Reductions in force modernization and canceling or reducing procurement programs have ominous implications for future defense capability. Therefore, the Navy has elected to attack the \$8 billion wedge through a multi-phase process, of which regionalization is a major component.



The application of best business practices has been identified as an enabling condition for regionalization throughout the development and implementation of the concept. This study confirms that many opportunities are provided in best business initiatives that may result in savings for Navy shore installations. Best business practices must be developed and implemented as part of regionalization for projected savings to materialize. The preceding chapter identified some of these opportunities, in the form of evaluative criteria, and identified particular aspects of regionalization to which they can be applied.

The tools the Navy has chosen to use in infrastructure reduction are appropriate, but they require a total commitment to the concept. If regionalization is to succeed, the benefits to the customers and the Navy must be clearly demonstrated and articulated, and Navy leadership must demonstrate a clear commitment. Otherwise, the bureaucracy that has served the Navy for so long will continue to resist sweeping changes, resulting in little more than a shuffling of lines on the organizational chart, changes in titles, and marginal savings. The consequence of achieving only marginal savings portends more serious infrastructure reductions in the future or even more drastic constraints on modernization efforts.

## **B. ANSWERS TO RESEARCH QUESTIONS**

**1. What criteria should be used to evaluate regionalization efforts in the Navy?**

Twenty criteria have been developed by synthesizing regionalization goals and current best business practice literature. These criteria are presented in Chapter V, Section B.

**2. What regionalization concepts have been applied in creating the three West Coast regions?**

The regions were all created following the Chief of Naval Operations' four guiding principles: no tenant should do what a host command can do, no host should do what a regional complex can do, no regional complex should do what the surrounding community can do more cost effectively, and the number of host commands and tenants providing services should be reduced to the minimum. The three regions share these common goals, but different organizational structures and business practices were employed in the establishment of each region. Chapters II and III contain detailed analysis of regional concepts and structures.

**3. What measurement tools and data are available to evaluate the fiscal impacts of regionalization efforts?**

Tools available to evaluate the effects of regionalization include value-chain analysis, activity-based costing, information technology, benchmarking, strategic planning, target costing, incentives, and reengineering. See Chapter V sections A and B for detailed explanation.

**4. Which of these tools can be effectively applied to Navy activities?**

All of these tools can be applied to various aspects of regionalization, as explained in Chapter V, Section B.

**5. What further research will be necessary to apply these tools and evaluate Navy regionalization?**

Further studies are necessary in the areas of standard services, baseline development, Activity Based Costing (ABC), benchmarking, and application of the criteria developed in Chapter V to evaluate the effects of regionalization. These are discussed in section D of this chapter.

**C. RECOMMENDATIONS**

If regionalization is to be more than another minor modification of Navy organization charts in response to budget threats, the criteria developed in Chapter V must be applied consistently and vigorously throughout the Navy infrastructure. Failure to do so may result in continued customer dissatisfaction, perpetuation of stove-piped organizations, unnecessarily reduced military capability, and operational readiness, and reduced quality of life. By establishing uniform standards of service, cost objectives, and performance measures and then applying them, operational customers of regions might have less need to supplement BOS support by using operating budgets. By identifying and applying these performance criteria and best business practices, and through the other study provided below, regions may be continuously improved.

A strong caution is required, however. Restructuring of this kind does not yield short-term savings. The steps of the "Five R's" may require five to ten years to fully implement [Ref. 39]. Acceleration of regionalization and outsourcing, while failing to invest in technology, and reduction of budgets now in anticipation of savings later may

render these efforts moot. The Navy will continue to support its operating units, but savings will not materialize, and budget reductions are likely to result in reduced levels of service and reduced military readiness in the longer-term.

#### **D. SUGGESTED FURTHER STUDIES**

##### **1. Standard Services**

Using the Core Business model as a template, develop a comprehensive definition of those services that should be included under the Base Operating Support category. Research should include opinions of operational forces and tenants to ensure that service categories reflect customer expectations.

##### **2. Develop Baselines**

Prior to completing further regionalization actions and commercial outsourcing initiatives, identify and compile cost baselines for activities that comprise Navy regions. The information base should include aggregate budgets, manpower costs, civilian end-strength and military manning levels, and real property maintenance costs incurred by claimants prior to ICC.

##### **3. Activity Based Costing**

Develop Activity Based Costing (ABC) models for services. Determine the appropriate allocation of overhead costs to processes and products.

##### **4. Benchmarking**

Establish benchmarks for processes. Interface with industry and public sector leaders who have successfully reengineered structures and processes to establish

benchmarks. Codify performance metrics. Identify opportunities to drive costs to benchmark levels.

### **5. Analysis of Regionalization**

Using the criteria identified in Chapter V and the results of the four research projects above, evaluate the actual impact of regionalization in terms of changes in costs, level and quality of service and other effects on the operating and support infrastructures of the Navy.

## **APPENDIX: ACRONYMS AND ABBREVIATIONS**

ACOS	Assistant Chief of Staff
ABC	Activity Based Costing
ABM	Activity Based Management
ADDU	Additional Duty
ADP	Automated Data Processing
AIMD	Aircraft Intermediate Maintenance Department
BOS	Base Operations Support
BQ	Bachelor Quarters
BRAC	Base Realignment and Closure
CAB	Customer Advisory Board
CBC	Construction Battalion Center
CHNAVRES	Chief of Navy Reserve Forces
CINCLANTFLT	Commander-in-Chief, U.S. Atlantic Fleet
CINCPACFLT	Commander-in-Chief, U.S. Pacific Fleet
CIVPERS	Civilian Personnel
CMC	Command Master Chief
CNB	Commander, Naval Base
CINCUSNAVEUR	Commander-in-Chief, U.S. Naval Forces, Europe
CNET	Chief of Naval Education and Training
CNO	Chief of Naval Operations
CNRSW	Commander, Navy Region Southwest
COMNAVAIRPAC	Commander Naval Air Forces, U.S. Pacific Fleet
COMNAVBASE	Commander, Naval Base
COMNAVREG	Commander, Navy Region
DCNO	Deputy Chief of Naval Operations
DFAS	Defense Finance and Accounting Service
DoD	Department of Defense
ESC	Executive Steering Committee
FISC	Fleet and Industrial Supply Center
FHP	Flying Hour Program
FYDP	Future Years Defense Plan
HRO	Human Resources Office

IT	Information Technology
IG	Inspector General
ISA	Interservice Support Agreement
JAG	Judge Advocate General
ICC	Installation Claimant Consolidation
IM	Installation Management
MEO	Most Efficient Organization
MILPERS	Military Personnel
MOA	Memorandum of Agreement
MOU	Memorandum of Understanding
MRP	Maintenance of Real Property
MWR	Morale, Welfare, and Recreation
NAF	Naval Air Facility
NAS	Naval Air Station
NAVAIR	Naval Air Systems Command
NAVDENCEN	Navy Dental Center
NAVFAC	Naval Facilities Engineering Command
NAVMAG	Naval Magazine
NAVMEDCEN	Navy Medical Center
NAVMEDCLINIC	Navy Medical Clinic
NAVPACMETOCCEN	Navy Pacific Meteorology and Oceanography Center
NAVSEA	Naval Sea Systems Command
NAVSHIPYARD	Naval Shipyard
NAVSTA	Naval Station
NAVSUBTRACENTPAC	Navy Submarine Training Center, Pacific
NAVSUP	Naval Supply Systems Command
NAWS	Naval Air Weapons Station
NCTAMS	Naval Computer and Telecommunications Command
NCTS	Naval Computer and Telecommunications Station
NJP	Non-judicial punishment
NPS	Navy Post Graduate School
NSTCP	Navy Submarine Training Center, Pacific
NWCF	Navy Working Capital Fund
NUWC	Navy Undersea Warfare Center
OB	Operating Budget
OPLOC	Operating Location
OPNAV	Office of the Chief of Naval Operations
OPNAVNOTE	Office of the Chief of Naval Operations Notice

OPTAR	Operating Target
OSD	Office of the Secretary of Defense
PAO	Public Affairs Officer
PACDIV	Pacific Division Naval Facilities Engineering Command
PACNORWEST	Pacific Northwest
PACMISRANFAC	Pacific Missile Range Facility
PM	Program Manager
PSA	Personnel Support Activity
PSNS	Puget Sound Naval Shipyard
PWC	Public Works Center
PWS	Performance Work Statement
QASP	Quality Assurance Surveillance Program
QOL	Quality of Life
RBM	Regional Business Manager
RIF	Reduction in Force
RPM	Real Property Maintenance
RSC	Regional Steering Committee
SBCA	Streamlined Business Case Analysis
SEB	Shore Executive Board
SPAWAR	Space and Naval Warfare Systems Command
SPECWAR	Special Warfare
STARS/FL	Standard Accounting & Reporting System, Field Level
SUBBASE	Submarine Base
SUBPAC	Submarine Forces, Pacific
SURFPAC	Surfaces Forces, Pacific
SWDIV	Southwest Division, Navy Facilities Engineering Command
SWFPAC	Strategic Weapons Facility, Pacific
TDY	Temporary Duty
TTF	Trident Training Facility
TYCOM	Type Commander
UIC	Unit Identification Code





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